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EXEMPTION OF JOINT STOCK LAND BANK BONDS FROM TAXATION

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HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-SIXTH CONGRESS
SECOND SESSION

ON

S. 3109

A BILL TO AMEND SECTION 26 OF THE ACT APPROVED JULY 17, 1916, KNOWN AS THE FEDERAL FARM LOAN ACT

JANUARY 10, 12, AND 13, 1920

Printed for the use of the Committee on Banking and Currency

WASHINGTON:
GOVERNMENT PRINTING OFFICE.
1920

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MAR 26 1920

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EXEMPTION OF FEDERAL FARM LOAN BONDS FROM TAXATION.

SATURDAY, JANUARY 10, 1920.

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met in room 303, Senate Office Building, at 10 o'clock a. m., Senator George P. McLean presiding.

Present: Senators McLean (chairman), Page, Gronna, Norris, Frelinghuysen, Newberry, Owen, Hitchcock, Kendrick, and Henderson.

Also present: Senator Smoot.

The following gentlemen interested in the pending matter:

J. B. Finley, Union Joint Stock Land Bank, Richmond, Va.

Evans Woollen, Fletcher Joint Stock Land Bank, Indianapolis, Ind.

Guy Huston, president Joint Stock Land Bank Association, First Joint Stock Land Bank, of Chicago, Ill.

W. W. Powell, secretary of the American Association of Joint Stock Land Banks.

J. H. Allen, Joint Stock Land Bank, of Des Moines, Iowa.

J. B. Madison, Virginian Joint Stock Land Bank, of Charleston, W. Va.

Walter Cravens, Liberty Joint Stock Land Bank, of Salina, Kans.

Messrs. Peters and Love, Lincoln Joint Stock Land Bank, of Lincoln, Nebr.

Edward Braddock, First Joint Stock Land Bank, of Minneapolis, Minn.

George L. Ramsey, Montana Joint Stock Land Bank, of Helena, Mont.

Dan V. Stephens, Fremont Joint Stock Land Bank, of Fremont, Nebr.

J. N. Allen, Des Moines Joint Stock Land Bank, of Des Moines, Iowa.

Mr. C. S. E. Holland, First Texas Joint Stock Land Bank, of Houston, Tex.

W. H. Weston, Peters Joint Stock Land Bank, of Omaha, Nebr.

Mr. —— Hunter, Central Iowa Joint Stock Land Bank, of Des Moines, Iowa.

W. H. Gold, Southern Minnesota Joint Stock Land Bank, of Redwood Falls, Minn.

Mr. Ferguson, Dallas Joint Stock Land Bank, of Dallas, Tex.

Mr. Peiker, Guarantee Joint Stock Land Bank, of Wichita, Kans.

Mr. H. C. Lupe, San Antonio Joint Stock Land Bank, San Antonio, Tex.

J. L. Williams, California Joint Stock Land Bank, of San Francisco, Calif.

M. A. Traylor, president First Savings & Trust Co., Chicago, Ill.

A. H. Judy, of Tunstall, Va.

R. C. Lewis, Fairfax, Va.

J. R. Howard, Des Moines, Iowa.

The CHAIRMAN. The hearing this morning is on Senate bill 3109, a bill introduced by Mr. Smoot, entitled "A bill to amend section 26 of the act approved July 17, 1916," known as the Federal farm loan act.

(The bill referred to is here printed in full, as follows:)

A BILL To amend section 26 of the act approved July 17, 1916, known as the Federal farm loan act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 26 of the act of Congress approved July 17, 1916, known as the Federal farm loan act, be amended to read as follows:

"SEC. 26. That every Federal land bank and every national farm loan association, including the capital and reserve or surplus therein and the income derived therefrom, shall be exempt from Federal, State, municipal, and local taxation except taxes upon real estate held, purchased, or taken by said bank or association under the provisions of section 11 and section 13 of this act. First mortgages executed to Federal land banks and farm loan bonds issued by Federal land banks, under the provisions of this act, shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

"Shares in any joint stock land bank may be included in the valuation of the personal property of the owner or holder of such shares in assessing taxes imposed by authority of the State within which the bank is located, and such assessment and taxation shall be in manner and subject to conditions and limitations contained in section 5219 of the Revised Statutes with reference to the shares of national banking associations.

"This amendment shall not apply to any farm loan bond issued by any joint stock land bank prior to the taking effect of this act. Such bonds and the income derived therefrom shall continue to be exempt from Federal, State, municipal, and local taxation.

"Nothing herein shall be construed to exempt the real property of Federal land banks and national farm loan associations from either State, county, or municipal taxes, to the same extent, according to its value, as other real property is taxed."

STATEMENT OF MR. J. B. FINLEY, SECRETARY UNION JOINT STOCK LAND BANK, RICHMOND, VA.

The CHAIRMAN. Please state your full name and the position you occupy.

Mr. FINLEY. My name is J. B. Finley. I am secretary of the Union Joint Stock Land Bank, of Richmond, Va., and also chairman of the special committee to petition your committee for this hearing.

The CHAIRMAN. You may proceed, Mr. Finley.

State to the committee any objections you may have to this measure, which proposes to remove the privilege of the tax exemption from the joint stock land bank mortgages.

Mr. FINLEY. Mr. Chairman, let me first thank this committee for this hearing, and in doing so say that we know full well how extremely busy you are and how many important problems you have, and therefore we will endeavor to speak as briefly and pointedly as possible.

The occasion of our being here, as, of course, you all know, was the introduction of Senate bill 3109, and report of your committee, No. 317, thereon. I have this report before me, and wish to say, first, that it admirably condenses the reasons usually given against tax exemptions in general, and those in the joint stock land banks in particular. It very succinctly states those reasons. It seems that the process of reasoning by which your committee reached its conclusion must have been somewhat along this line: That tax exemptions were wrong in principle; that there was a great public need for revenue, and that as many sources as possible from which revenue could be taken were to be sought; that here was a corporation created by Congress and given certain privileges, among them the tax exemption on bonds; that, operating under those privileges, this corporation, chartered by Congress, had earned such excessive profits that the privilege of tax exemption could be taken away and still the corporation permitted to live and succeed in business.

That, I say, appears to be the process of reasoning followed, and the statements here, including the tabulated statement on the back of your report, go to show that.

It is our purpose in asking for this hearing to show you our belief—I may say our very certain conviction—that the information submitted to your committee, from whatever sources obtained, was incomplete or inaccurate, or both; and therefore necessarily misleading. We can not make that too positive. We are not profiteering, and we can show, I am sure, to your full satisfaction, that we are not profiteering.

I will not weary the committee or take up time in discussing the antecedents of the farm-loan acts, because you are thoroughly familiar with them, but I will read one short, concise statement, giving the source of it after I have read it.

It is of great importance to the social and economic welfare of this country that its farmers have facilities for borrowing easily and cheaply the money they need to increase the productivity of their lands. It is as important that financial machinery be provided to supply the demand of farmers for credit as it is that the banking and currency systems be reformed in the interest of general business. Therefore we recommend and urge an authoritative investigation of agricultural credit societies and corporations in other countries, and the passage of State and Federal laws for the establishment and capable supervision of orgnizations having for another purpose the loaning of funds to farmers.

That is taken from the Republican national platform of 1912.

The Democratic platform declared almost in the exact words the same principles.

I call your attention to this for two purposes. First, that those platforms were particular to put suitable credit facilities for the agricultural industry in this country on a parity of importance with the Federal reserve act, or, rather, what later developed into the Federal reserve act; and, second, a point which is quite significant in this hearing is that four years before the act was passed the

framers of the Republican platform saw the necessity of a dual system in farm credits, and therefore urged the investigation not only of credit societies but also of corporations.

The Democratic party asked for the investigation in foreign countries of credit societies only.

But here is something still more significant: That, although one party, four years before the act was passed, foresaw the necessity for a dual system after a thorough and exhaustive study of the question, the other party, dominant in Congress when the farm-loan act passed, finally indorsed the dual system.

Senator HITCHCOCK. Mr. Chairman, I was not here when the hearing began. Was there any time limit to the hearing proposed?

The CHAIRMAN. No; except Mr. Finley understands that he is to concentrate his statement as much as he can, and at the same time present to the committee the important points which he wishes to bring to the attention of the committee.

Mr. FINLEY. I know our time is rather limited, and, as I am sure members of the committee are familiar with the history of the act, there is no intention to go into it further.

The CHAIRMAN. Yes; I think we are familiar with it, and you could get down to the brass tacks of the matter. I think it would help matters.

Mr. FINLEY. Thank you for the suggestion, but I have said all I intended to on that subject.

I think one short general statement is necessary, in order that the committee may understand the attitude of the joint-stock land banks toward this act, and I will make this very brief.

It is unnecessary for us to go back of the act itself, because speaking merely as business men we find the intent in the act itself, and our construction of that is this: That the act was for the purpose stated in its preamble and in the body of it, "to provide capital for agricultural development;" that it was not passed for the little farmer or the big farmer or for the poor farmer or for the rich farmer, no more for a class within a class than any class at all; but that it was for agricultural production for the general welfare. Its sole reason and its sole justification is that this national aid to agriculture was imperatively necessary and must be an aid to the whole agricultural industry—that no classification should be made between those within the industry any more than anyone would claim that the Federal reserve act was passed for a big merchant or a small merchant or a rich merchant or a poor merchant.

The incidental advantages to farmers or classes of farmers should not be begrudged them, especially now when production of all kinds is our and the world's economic salvation, and farmers are producing, not profiteering; striving ahead, not striking.

That is our general attitude toward this act. Are we conducting this business according to the intent and purpose of the act? That is really the acid test. We are willing to submit to it. If we do not meet it, cast us out.

Now, coming to the salient points you have mentioned in your report, the first one is that the accumulation of large aggregations of capital wholly exempt from any and all forms of taxation is

wrong in principle and should be discontinued. Then the report says:

> The large taxpayers will gradually absorb these bonds, which will contribute nothing to the support of the Government.

That portion of the report will be covered by a gentleman eminently able to do so, both from a study of the subject and from practical experience in handling bonds of all kinds, taxable and otherwise.

The next point that you raise is this:

> The excess earnings of some of these banks indicate that they are making large profits; and it has been represented to your committee that they are likely to encroach upon the legitimate field now occupied by the farm-loan banks, unless their activities are restricted.

As I said, the whole action of the committee seems to be predicated on the idea that these banks have made excessive profits, and this idea seems to have arisen on account of inaccurate information in regard to one bank in Chicago.

It originated by confusing earned profits with the sale of some stock. I will not weary the committee by going into the details of it, but want to say here that we have the facts in regard to this matter at hand, and we can go into the matter, either now or later, if you wish us to do so. To show that the information was incorrect, we have in our possession a letter from the author of the original statement that that bank was making 30½ per cent, which shows by a complete and accurate analysis the profit at that time to be 9½ per cent per annum.

Further, the report you have published here speaks of "excess earnings," implying excessive earnings. What it should have stated was "excess of earnings," perhaps a mere misprint. There is quite a difference.

Some of those banks have been in existence for three years, and if you will divide the amounts shown in your report by three you will see it is a very proper showing per annum.

Further, in the report of the Federal Farm Loan Board for the current year there is a discussion of this question of how much the joint-stock land banks make, in which it is clearly shown, as it is a fact, that the gross earnings of these banks are necessarily limited to about 21 per cent, out of which they must not only pay their ordinary running expenses—including taxes on the capital, because, contrary to general impression, they do pay taxes—but also make their proper reserves for losses. Eight to 10 per cent without excessive losses, is a conservative estimate of the earnings of one of these banks, run conservatively.

We have ample data to submit to you, in a brief which we will lay before you, asking that it be printed.

In regard to these excess earnings and other charges against us, I was in the Supreme Court room this week listening to the argument before that body in the constitutionality of the act, and an attorney appeared there who made this statement, among others: That joint-stock banks could loan any amount to anybody, for any purpose, and also the charge of excess earnings was reiterated there.

In connection with that, I have a circular that I would like to put into the record, and can get a certified copy of the original if it is necessary. I will read it. [Reading:]

FARM MORTGAGE BANKERS' ASSOCIATION OF AMERICA,
Oswego, Kans., January 2, 1920.

DEAR SIR: I am sure that all members of the Farm Mortgage Bankers' Association can not fail to be deeply interested in the following letter from W. T. Day, president of the Day & Hansen Security Co., of Spokane, Wash., in relation to the need for generous subscriptions by our membership to the educational campaign fund:

"As a member of the finance committee I wish to urge upon you, its chairman, the necessity of impressing upon each member of the Farm Mortgage Bankers' Association and others who are interested in farm-mortgage investments, the great importance of subscribing most liberally to the educational fund which is to be used during the next few months in an endeavor to mold sentiment among Congressmen and others in favor of a repeal of that portion of the Federal farm loan act exempting the bonds issued under the act from taxation.

"This will mean everything to the mortgage bankers, and it should be supported by the taxpayers of the country. I feel that our strong and only hope of securing legislation that will be of assistance to us is through sentiment in favor of abolishing the tax exemption feature of these securities. This almost means life or death to mortgage companies and others dealing in mortgage securities, as at the present time the Federal land bank and joint-stock land banks are covering the best fields and loan in such sums of money that no legitimate mortgage company can long meet the competition if the tax exemption feature is allowed to remain.

"Any mortgage banker or other individual who does any mortgage-loan business to speak of can afford to put up $150, which was the sum subscribed by members of the association toward carrying on this fight. I trust that a great many will see fit to increase the said sum in support of the campaign now being waged. It is the duty and should be the desire of every farm-mortgage banker and individual interested in farm mortgages to do their utmost to aid in this campaign which is being carried on so splendidly by Mr. Chassell, our able secretary.

"Hoping that you will be very successful in your campaign for raising these funds, I beg to remain."

Mr. Day has certainly made it plain to all of us the absolute necessity for pushing this educational campaign in which you are so vitally interested.

Please send in your check, if not sent heretofore.

Yours, truly,

ROBT. O. DEMING, *Chairman.*

Mr. FINLEY (continuing). I have not read that simply to denounce it as propaganda. There is good propaganda, and there is bad propaganda. Preaching the gospel is propaganda, and you can not conduct a church without money. The purpose for which it is done, and the manner in which it is done should be the test. These gentlemen declare that this is a matter of life and death to them. It is also to us, and we are active as they are. We are not making any complaint against anyone using the truth in self-protection, but you gentlemen have been made the victims of so much improper propaganda, where the motive is hidden; where the truth, if told at all, is distorted, or where essential facts are withheld, that this leads me to say there is improper propaganda, and that kind of propaganda should always be denounced.

Now, what are the facts? This gentleman stated before the Supreme Court of the United States that the joint-stock banks could loan any amount, to anybody, and for any purpose.

In the first place, the valuation placed on these lands is by the appraisers appointed by the Federal Farm Loan Board. They appoint the appraisers, not for any one bank or class of banks, but for

the system, assigning them and reassigning them from one to the other.

Second, the amount that you can loan on any one property is limited not only by the law or by regulation, but it is limited by the value, of course, and the total loan we can make bears a proportion to the value of the property identical with that of the Federal land banks.

Now, as to any amount. The law itself does not restrict us as to the amount; but what is the practice now?

The Farm Loan Board has administrative and regulatory powers, and that board has restricted us in any one individual loan to an amount not to exceed 15 per cent of our capital and surplus, and not to exceed $50,000 in any event, and as to purpose, it has by its rules and regulations, and particularly by its power of approval of loans as a basis for bond issues, held us practically to the same purposes as the Federal land banks.

The legality of those rulings—and we will submit copies of them—may be questioned, but their safety and sanity are unquestionable and no joint-stock land bank is questioning them; on the contrary, we are perfectly willing that Congress make the purposes of the act identical as to both banks. We think it should have been done in the first place. If we are not conducting this business within the entire spirit of that act, the Farm Loan Board has power and can exercise it, and ought to exercise it, but Congress ought to make it legal beyond question.

In that matter of authority, the Farm Loan Board recently probably exceeded its specific authority in saying that, regardless of the value of property, when gauged by its present sale value, no loan, no matter how high the property sold for, could exceed $100 per acre, but I want to impress upon the Senators present the value of regulating powers you have given this board and other boards, and its beneficent effects.

You have had two illustrations of it lately. I am not going into any detail, but the Federal Reserve Board called the leading bankers of the United States to the city of Washington recently to discuss what interest should be paid to banks on their deposits in the large money centers. In reality, it opened up the question of taking the proper steps before it was too late to prevent undue inflation.

And so the powers you grant these boards here can regulate these matters of national concern. The Farm Loan Board has used its power—to do what? To check, by the power it has in its hands, this recent crazy inflation in land values in this country. It has been charged against the farm-loan act that it is responsible for that inflation. It is not responsible for it. Every order of the board has proved that it is not. It is doing what it can to check it. Mortgage brokers or local money lenders and speculators are financing this boom in land values. We all know that it can not continue; that it must stop and be followed by a recession in values more or less violent; and that suggests that perhaps instead of Federal land banks drawing a rosy picture of increased dividends and decreased interest rates, instead of so much talk about the excessive earnings of the joint-stock land banks, which do not exist, that there should be more talk and, if necessary, legislation, that both banks should strengthen their reserves against that inevitable day.

Senator NORRIS. Will you or some one else comment on the amount of the different loans? For instance, do you know what the average loan is?

Mr. FINLEY. Yes; I have that.

Senator NORRIS. Will you go into that?

Mr. FINLEY. Yes; in a few moments.

Senator NORRIS. All right. I do not want to divert you, but I would like to have that brought out.

Mr. FINLEY. Your report speaks of restricting our activities.

Senators, you will not only restrict them, but you will terminate them. We simply can not conduct the business within the other limitations of the act, which are left untouched in this bill—and your report is that Senate bill 3109 do pass without amendment. We can not make a turnover in excess of 15 times our capital, and we are restricted to 6 per cent maximum interest on loans. Both of the banks are running on a 1 per cent margin—the margin between what we pay the bondholder in interest and what we charge the farmer.

It ought to be apparent, and I think it is—and I will not go into details in regard to it to show you—but if you will get the current quotations in New York, or any money center, to-day, you must agree that it is impossible for us to sell our bonds, if they are taxable, and still loan money at 6 per cent.

Senator GRONNA. Pardon me, but, of course, the law does not say it shall be 6 per cent; it is 1 per cent above the rate charged in the bonds.

Mr. FINLEY. But in no event to exceed 6 per cent.

Senator GRONNA. Yes. Of course, it might be less than 6 per cent.

Mr. FINLEY. Yes; but if we could not live at 6 per cent, we certainly could not live at a less rate.

Senator GRONNA. I just wanted the record to show it was not necessarily 6 per cent.

Mr. FINLEY. A clause in your report also contains this:

> It has been represented to your committee that they are likely to encroach upon the legitimate field now occupied by the farm-loan banks unless their activities are restricted.

Under this statement I will answer the question asked by Senator Norris. There is a competitive field in this dual system. At present, so far as the law is concerned, it is the field in loans between $100 and $10,000. In actual practice, it is very much less, because a number of the joint stock land banks have voluntarily set a minimum loan below which they do not care to loan. In some cases that minimum is very near the maximum for the Federal land banks; in other cases it is one-half; in others it is one-third; and in my own case it is 25 per cent—that is $2,500.

You speak of the legitimate field of the Federal land banks. Of course, without change in the law, we also have a legitimate field. We are both the legitimate children of an act of Congress.

Now, what has been the actual amount of competition? These figures are taken from the official reports. They show that November 13 the Farm Loan Board had examined some $55,000,000 of loans made by these joint stock land banks. Out of this total

$38,911,464 was for loans of $10,000 or more, and $16,853,720 were for less than $10,000. That is within the competitive field. The percentage of loans under $10,000 in amount is 30 per cent plus. The average loan for the whole fifty-five million, the amount mentioned in your report, was $9,000.

Above the maximum limit of the Federal land banks, $10,000, our average is only $17,000; our average within the $10,000 limit is $4,300. The average for all 12 Federal land banks up to October 1, 1919, out of a total of $271,317,000, was some $2,600 plus. So that our average loan within the competitive field is 50 per cent, in round numbers, more than the average loan of the Federal land banks.

Senator HITCHCOCK. Have you any figures showing how many loans have been made over $25,000?

Mr. FINLEY. No; but they could be obtained.

Senator HITCHCOCK. Any considerable number?

Mr. FINLEY. I think not, on account of our average loan just stated.

Senator HITCHCOCK. What would you think of a limitation of $25,000?

Mr. FINLEY. May I discuss that a little later on, please?

Senator HITCHCOCK. What is the largest loan any of the banks have made?

Mr. FINLEY. Before the order of the Farm Loan Board went into effect, I think about $160,000; but, in reality, it was six or eight loans, instead of one loan, because one man had a very large farm and kept it in his own name, but the benefits of the loan went to his several children, and was practically divided between six or eight farms.

Some loans were made too large, and that is the reason of the order of the board.

Senator HITCHCOCK. What is the largest single loan the banks made?

Mr. FINLEY. I can not say, except as just stated.

Senator HITCHCOCK. Well, they have been as high as $85,000, have they not?

Mr. FINLEY. They may have been before that order was entered. They are not now.

The CHAIRMAN. I suppose that order could be lifted at any time by the board?

Mr. FINLEY. I presume so; and that is why it should be clear that the order should be entirely legal and binding.

Senator NORRIS. There is some question about its legality?

Mr. FINLEY. Yes; I have admitted that.

Senator NORRIS. But nobody has questioned it?

Mr. FINLEY. No, sir; none that I know of.

Senator NORRIS. There is no disposition on the part of the bank you represent to question its legality?

Mr. FINLEY. No, sir; no attorney, briefless or otherwise, need apply to us for employment.

Senator HITCHCOCK. You say some of the loans, you think, were too large?

Mr. FINLEY. Yes.

Senator HITCHCOCK. Why do you think they were too large?

Mr. FINLEY. I will come to that. When you open the question of the competitive fields of the land banks, you go to the heart of the purpose and plan of the act.

There have been theories why the dual system was incorporated into this act. Now, you gentlemen know that——

Senator HITCHCOCK. Yes; we know that pretty well, I think. What we want to get to is the practice, I think.

Mr. FINLEY. Yes, sir; but I must explain our position, to answer your question of the limit that should be reached, and I will make it as brief as possible.

The act as passed was, of course, the resultant of many forces, but we find, as I said before, our intent in the act itself; and this is the construction we put on it—the necessity for the dual system. Suppose you had confined it to the joint-stock land banks only—and I am willing to confess my own feelings are it would have been more in consonance with the American idea and plan to have left this banking business to private initiative; but you acted wisely when you did not give the entire field to the joint-stock land banks, for this reason.

I think it was Artemus Ward who said that there was a good deal of human nature in the people in general; and if you had left the whole field to private enterprise, the joint-stock land banks would have done what the old mortgage bankers did; flock to the cream of the territory, to the garden spots. Mortgage brokers are correct when they say that this act has not materially reduced the prewar mortgage rate in the corn belt; but they are uneasy, not so much on account of the interest rate, but because the long-time amortized loan is the thing that attracts the farmers there and elsewhere. The average farmer would, if compelled to do so, pay a little more interest for that kind of a loan.

But the point I want to make clear is that it is the amortization feature, the peace of mind that the farmer has when he knows that there is no such thing as his whole mortgage falling due at one time; that it fades away; that is important.

The farm-loan act declares it was passed "to provide capital for agricultural development" throughout the Nation. If we had the field to ourselves, there would have been large areas neglected that potentially at least were just as good to obtain the main object of this act, increased agricultural production for the whole Nation, where credit facilities were lacking, or could only be had on conditions so burdensome that it would hurt more than it would help.

The main thing was to make the act effective, and there were large areas that would not, at least for many years, have been reached by the joint-stock land banks left to their own choice as to when and where they would make loans, and therefore it was necessary that Congress should provide for the organization of little local banks—because that is what national farm-loan associations are—little local land banks. They must have capital, at least $1,000 to start with. They have a Federal charter, and are just as much banks as we are. They were given the plan and the power to start the initiative from below, to compel the service of the act in their immediate territory; and to insure that they could do it the subscription of capital stock for these national farm-loan associations was made compulsory; that is, a man could not be a stockholder unless he was a borrower, and if he was a borrower he must be a stockholder. In many sections the pressure must come from below, through these cooperative associations—to a certain extent they are not fully cooperative, but they should be; we are not against them in any way, shape, or form; but I firmly believe, and a large majority of our association, I am sure, believe that there ought to be a dual system, for the reasons I am now giving.

Now, then, you put a limit on their loans. Why? For two reasons. First, having compelled this small farmer to risk his capital; and there is a double liability on his capital that he puts in that national farm-loan association, there is a moral obligation on Congress not to jeopardize his small contribution, his forced contribution, if you choose to call it such, of capital, by too large an individual risk. That is one reason. The other is this: That if you had made a larger loan limit there, then the tendency in the Federal land banks, within their own districts, would have been just what I said the mortgage bankers did—flock to the best territory and neglect the men whose aggregate production, compared to the agricultural production of the whole Nation, is larger than that from the large producers.

Those were the two main reasons, and there, at that line, opened the opportunity—not only the opportunity but the justification—for the joint-stock land bank that would take care of the larger producers and assume all risks voluntarily.

Now, in answer to Senator Hitchcock's question of limitation on the amount loaned: There ought to be a limitation. It ought to be a limitation that just so far as possible will prevent the banks making any loans above what the Federal land banks make, that will foster land speculation, holding land out of production instead of doing what the act intended—bring it into production. It can hardly be said in this day that the large producer does not need a credit system, when agriculture is differentiating itself—on account of labor and other conditions—into the small farmer, who farms largely by his own labor and that of his family, and the large units, that must have improved machinery and the best facilities for maximum production. He needs financing, and you can fix the limit where that kind of a farmer can be financed, and yet prevent what the people of every nation know to be a great wrong—the holding of large areas of land out of use. The limit, wherever it is, should be left to the discretion and investigation of your committee. I will not attempt to name that.

Now, then, the field of competition in these two banks should be fixed so that it would meet varying conditions—not absolutely fixed for all the districts, because conditions vary; but, as a broad principle, maximum and minimum loans should be fixed so that both kinds of banks may have a sturdy, consistent, safe growth, and not imperil either.

Senator HITCHCOCK. You did not fully answer, I think, that question as to why you said certain loans were excessive. Where do you draw the line? I do not understand the method by which you say one is excessive and one is not.

Mr. FINLEY. The best line that you can draw to prevent speculation and landlordism; that is the best answer I can give.

Senator HITCHCOCK. You think they ought to loan up to the point where they loan not to promote agriculture, but to promote speculation?

Mr. FINLEY. And landlordism.

Senator HITCHCOCK. And the figures the board have taken are $50,000?

Mr. FINLEY. Yes.

Senator HITCHCOCK. Do you not think any man who wants to borrow $50,000 can do it without Government aid?

Mr. FINLEY. He can; I will give you a specific example. It happened in my own bank, but there is no reason why I should not state it. We are not five months old. We took out a charter under the provisions you passed; we accepted it as its face value. We put in $250,000 capital, and we are prepared to complete the payment in of $50,000 surplus. That gives us a loan capacity of $45,000. Out of 200 applications we received in a comparatively short time, there were only two that asked for the limit. One of them was approved for less than that limit. He was preparing his abstracts of title, when there converged in litigation and legislation a condition of affairs that stopped that—not only stopped that, but the Federal land bank to a large degree, both on account of an official order which has been issued by the Farm Loan Board, but from the necessities of the situation both banks are marking time and appraisers have been called in; applications are not being taken; applications on file are not being appraised or approved; in other words, we are standing still as much as possible.

Senator OWEN. What was the order?

Mr. FINLEY. On account of this condition, to do as little business as we could.

Senator OWEN. Was it an order?

Mr. FINLEY. Not an order, but a suggestion.

Senator OWEN. That you should do as little business as you could?

Mr. FINLEY. A good suggestion, but hardly necessary under the circumstances. What happened? Before this man had submitted his abstract we had loaned out nearly all our capital; we did not want to issue bonds, as we could not have sold them except at a sacrifice. Consequently we explained the situation to the man three days ago. We have been threatened with suits. What he is going to do I do not know. He went out in the city and asked for a $40,000 loan and he was accommodated. He got a $40,000 loan for five years at the same rate we would have charged, 6 per cent. But he was charged a brokerage of $2,000. Now, that man was not rich. He was a farmer and he was a very efficient producer. He was doing what this act was passed to enable him to do. Now, why should he be penalized that $2,000 simply because somebody thinks that he was in the capitalistic class? Beyond that limit of landlordism and speculation, which ought to be checked, outside of that, the Federal reserve act and the farm loan act are identical. Within the Federal reserve act the right—not the ability, but the rights and privileges of that act, are as open to Mr. Rockefeller as they are to any peddler of his products.

Senator NORRIS. What did that man propose to do with his money that he was going to borrow?

Mr. FINLEY. Improve his farm and improve its productivity.

Senator NORRIS. What was he going to use $40,000 for—for improvements on his farm?

Mr. FINLEY. Not all. He had some debt on his farm.

Senator HITCHCOCK. How many acres had he?

Mr. FINLEY. Some 400 or 500 acres.

Senator HITCHCOCK. Was he buying more land?

Mr. FINLEY. No; he had not paid for all of his land.

Senator OWEN. The report of the committee says that large taxpayers will absorb these bonds. What do you know about that?

Mr. FINLEY. We have a gentleman eminently qualified to answer that question later.

Senator NORRIS. How much in this particular case was to pay off the debt on the farm, and how much was for improvements?

Mr. FINLEY. I think it was about 60 and 40.

Senator NORRIS. Forty for improvements, and 60 per cent for the debt?

Mr. FINLEY. Yes.

Senator NORRIS. And the loan was for $40,000?

Mr. FINLEY. He asked for $45,000, but he finally cut it down to $40,000.

Senator NORRIS. What kind of improvements did he have to make; what kind of improvements did he propose to make with the $40,000?

Mr. FINLEY. He wanted to make his farm a big producer of alfalfa, and he had to seed it and build a number of barns.

The CHAIRMAN. This act requires that the loan shall be on farm land, but there is practically no provision as to the use of the money.

Mr. FINLEY. We do not object to that being remedied in any way that it ought to be done, and think Congress should amend the act to make the purpose of the loans identical with the national farm loan associations and the Federal land banks.

The CHAIRMAN. Why do you need two systems? They accomplish precisely the same purpose; why do you need the two?

Mr. FINLEY. I have already tried to cover that, Mr. Chairman.

The CHAIRMAN. I understand you want to increase the size of the loan?

Mr. FINLEY. No, sir; to decrease it. There is no legal limit on it now.

The CHAIRMAN. Well, there is a pressure already brought to bear to increase the loan which the farm loan banks can make?

Mr. FINLEY. Yes.

The CHAIRMAN. If that were done, then you would be precisely on the same basis.

Mr. FINLEY. I can not quite agree to that. We might be as to the amount loaned; but, from a public standpoint——

The CHAIRMAN. You would if the law required you to devote the proceeds of the loan to the same purpose, it seems to me.

Senator NORRIS. And required the borrower to actually reside on the land and cultivate it?

The CHAIRMAN. Yes. He says that he is willing that the administration of the law should be precisely the same as in the case of the farm-land banks.

Mr. FINLEY. Not the administration, as to their respective fields.

The CHAIRMAN. Well, the regulations?

Mr. FINLEY. Yes; as to purpose only. Our fields are distinct.

Senator NORRIS. He confines it only to the purpose. Of course, that would still leave the difference between the two systems.

Senator GRONNA. The maximum amount to be loaned by a farm-land bank now is $10,000. Are you in favor of increasing that amount?

Mr. FINLEY. When I answer that, you must understand, of course, that I am speaking personally and not in a representative capacity.

My idea of that is this: That the whole Federal farm loan act, so far, has been developed under abnormal conditions. That is conceded. And here is another thought: As yet, there has not been sufficient normal experience to base any fundamental changes on in the act.

We all know that $10,000 will not buy as much now as it did before the war. We all hope that it will buy more hereafter than now; and after a due length of time, when you can strike a balance and reach some safe conclusion as to the amount of the depreciation in the purchasing power of money as compared with the ante-bellum conditions, the $10,000 maximum could be safely increased by that percentage, in my opinion.

Senator GRONNA. Increased to what percentage?

Mr. FINLEY. The same percentage the depreciation in purchasing power bears to ante-bellum conditions.

Senator OWEN. How does the average rate of earnings of these banks compare with the average rate of earnings of the national banks? Do you know?

Mr. FINLEY. I do not know the average in the case of national banks; but there is a gentleman here who will follow me who can answer that question fully, and I will be very glad if you will have him do so.

Senator OWEN. Do you know what the average earning of these banks has proved to be?

Mr. FINLEY. The joint-stock land banks?

Senator OWEN. Yes.

Mr. FINLEY. We can tell you that; and it is very low.

Senator OWEN. We want to know what it is, if you know——

Mr. FINLEY. Yes, sir; less than 3 per cent per annum average. But at the same time we want to be fair in that statement——

Senator OWEN. The national banks earn somewhere around 10 or 11 per cent.

Mr. FINLEY. Many of them far more than that. Our average per cent per annum is low because so many of us are quite young in the business yet——

Senator OWEN. I understand that, but the suggestion is made in the report of excess profits, and I want to know what the facts are?

Mr. FINLEY. The facts are that only one bank has made so much as 11½ per cent. That is the maximum made under especially favorable conditions. The Federal Farm Loan Board covers this question of earnings very effectively in its annual report, which I understand has already been released, and we are filing with your committee a complete statement for each bank.

Senator GRONNA. According to that statement, you do not come in competition to any great extent with the Federal farm banks?

Mr. FINLEY. We do within the $10,000 limit; but we have voluntarily limited it.

Senator GRONNA. I thought from the report it was very limited.

Mr. FINLEY. Thirty per cent; but there are some difficulties, largely administrative.

Senator OWEN. What you said a while ago was that practically 70 per cent of your loans were outside of the limit fixed by the Farm Loan Board on the ordinary farm-land banks and only 30 per cent came within the competitive field. Is not that the fact?

Mr. FINLEY. Yes, sir. I also said that we had voluntarily restricted that field and that the Farm Loan Board had further restricted it by its rulings, which we gladly accepted. In total amount of loans only 30 per cent of our loans are below $10,000. Our average above $10,000 is only $17,000, and our average of all is only $9,000.

In concluding this opening statement, we wish to ask the committee to recall the bill, if it will. You have already passed—this committee has, and I believe it has passed the Senate—a bill relieving the Treasury of the burden of the support of the farm bureau, and throwing it on the Federal land banks and the joint-stock banks. We are not objecting to that at all; we know of no objection to it whatever. There are also other bills pending taking out some of the red tape in the operation of the Federal land banks. We are not objecting to that. We are not opposing it; we are not fighting it. If you leave it to the individual farmer, as a borrower he would ordinarily prefer our system; but for reasons I have stated we do not think it would be wise public policy to do that, because localities that need loans for production would not be served adequately.

So we are not objecting to any of these bills by which you are trying to improve the machinery and the operation of those banks. We ask that you bring the bill back and treat us in the same spirit.

Senator HITCHCOCK. Will you not let me ask you a question, reverting to that concrete case you specified? That farmer went out and borrowed $40,000 and gave a mortgage which presumably will pay an income tax to the Government. Suppose that income tax is 6 per cent. The holder of the $40,000 would pay to the Government $2,400 a year. Now, the Government then lays that $2,400 a year income aside from what may be lost to the State or the county. It has only cost the farmer, you say, $2,000 to get it. So that, in order to give him the benefit of $2,000 over a period of five years, you have sacrificed for the Government an income of $2,400 a year, according to the present tax standard, to say nothing of the county and the State and the city, what they may have lost. What have you to say in regard to that?

Mr. FINLEY. My reply to that is this. You said "presumably." You very correctly used that word, because it is a notorious fact that very few of these mortgages do pay any tax, and it is elemental that no man would buy a 6 per cent mortgage on which he would have to pay the whole 6 per cent to the Government, and, in addition, local taxes. It would be interesting, indeed, for all of us, if we could trace that transation through to its end, and find out how much of that $2,000 this farmer had to pay in excess ever found its way into any public treasury.

Senator SMOOT. You know 6 per cent bonds of private corporations, of undoubted standing in the world financially, are generally at a premium, not at a discount.

Mr. FINLEY. They are selling now on a 7 and 8 per cent basis.

Senator SMOOT. Well, right to-day; not when these joint-stock land banks were first organized.

Senator NORRIS. I do not know whether you are prepared to take it up, but some place in this hearing I would like some one to take up this proposition: Suppose that the committee, after this hearing, is still favorable to the bill as has already been reported. What method or what law can be passed by Congress that will save you people from any harm or damage? Have you any suggestions to make as to what we should do in case we still adhere to the original action of the committee?

Mr. FINLEY. I intended to conclude my talk with a reference to that, but no intention to suggest any arrangements for our own funeral.

We do not ask you to bring the bill back for the purpose of providing some reasonable and just method for our liquidation; we do not want to be liquidated. We are doing good work. We know it. We want to go on and should be permitted to do so. If there is anything that is too loose in this act, you can tighten it up—improve it. The differences between the two banks can be adjusted on a reasonable basis for the benefit of the public—not merely for the benefit of men who have official positions in one and men who have their own capital in the other.

So we are not asking you to provide means for our liquidation; because, if it should ever come to that bad end, we know you gentlemen represent the cherished opinions and feelings of the Nation, the American sense of fair play; that justice is represented here in this Senate, and that after having been invited to come into this, and having responded and invested our capital—and, what is far more important than that, made commitments to farmers for loans that if not made will upset all their plans for production—then a situation will have arisen that we can leave to your fairness and sense of justice.

The CHAIRMAN. You are doing business on a 1 per cent margin; and the farm land banks are doing business on a 1 per cent margin. They loan money at 5½ per cent. Why can't you?

Mr. FINLEY. For several reasons: First, and perhaps as important as anything else, because of the very wording of the act. It puts their bonds before the public, so as to give the impression that the Government is behind them to a greater extent than it is behind us. That is one reason. Another is, the coguaranty of all their bonds by all their banks is back of them for whatever it is worth. That is one reason they sell bonds at a less interest rate than we do. The bonds of both banks are instrumentalities of the Government, but it is advertised that the Government has stock in the Federal land banks. They had advanced to them nearly $9,000,000 of public funds free to start business with that will be returned in time. There is no double liability on that stock.

There is still another reason. The United States Treasury has bought $135,000,000 of their bonds. If they had to sell bonds as we do, they would have to charge the farmer the same interest or pay him less in dividends on his stock.

Mr. ALLEN. Another thing is that the Federal land banks are allowed to loan twenty times their capital.

Mr. FINLEY. Yes; and we but fifteen times. That is another good reason.

The CHAIRMAN. That would not tend to make the security better, would it?

Mr. FINLEY. It increases their power of income, relative to ours. Ours is only fifteen times the amount of our capital, and they are allowed to loan twenty times their capital.

The CHAIRMAN. I want to call attention to an extract I have here from a hearing before the House committee on November 13. I will read it. [Reading from p. 22 of hearings before the House Committee on Banking and Currency, Nov. 13:]

Mr. STRONG. The men who advanced the price of land, in my judgment, are the well-to-do farmers and speculators who are going out and buy more land, because they have an established trade and can borrow money, because they can borrow funds by reason of their wealth.

Mr. COREY. That is true.

Mr. STRONG. And they put up the prices and deprive the little farmer of the opportunity of owning a farm.

Mr. COREY. I think that is correct.

Mr. STRONG. Then why should the Government issue tax-free bonds in order to help rich men borrow large amounts of money?

Mr. COREY. That is pretty drastic and, very properly speaking, proper criticism of the loans through the joint stock land banks.

Mr. FINLEY. That should be taken, I think, in connection with his statement also in the same hearing, that there was no limit on what we could loan; but I have just shown that there is.

The CHAIRMAN. Well, $50,000 now, and that could be raised at any time. That is a pretty large sum of money to be loaned free of tax. We have a bill pending here now, introduced by a member of this committee, the Senator from New York—Mr. Calder—who wants the Government to permit the incorporation of building and loan associations. The purpose is to furnish money to the poor man so he can build a little home; and they want to issue bonds, and they want those bonds exempt from taxation.

We have a railroad problem on our hands here, in which we limit the income of the roads to 5½ and 6 per cent, and we want cheaper transportation. The public is just as much interested in that as they are in farm production; and they are also interested in having a poor man have a home of his own. If we start in on this tax exemption business, where can we fairly and justly stop it?

Mr. FINLEY. Mr. Chairman, I can not possibly answer that better than by quoting an expression of one of the Justices of the Supreme Court—not on that particular point, but on another point in the argument on the constitutionality of this act, as to the tax exemption. It is on that question of tendency and how far it was an issue. The Justice said that because you went to the edge of a precipice, it was not necessary to jump off.

The condition in regard to these building and loan associations are entirely different from what they are in the agricultural field.

There is nothing in the industrial life of the Nation more stable than farm lands. While the value of the cities, as a whole, is increasing, there are large sections in the cities, owing to the fact that the real estate fashions in the cities change, where land is not worth as much as it was formerly. There are in New York City to-day buildings bonded, that when they were bonded were bonded on a 50

per cent basis; and they would be glad to sell them now for the bonds. That is because of subway changes, and new avenues opened up, and such reasons; that it is tax-free municipal bonds that has already made through public buildings, paved streets, lighted boulevards, extensive parks, life in the city so attractive that people from the country are willing to go there, sleep in a garret and live on a crust rather than stand the isolation of the country.

And your same question of relativity would come in there. Would you stop at New York or Chicago or a town of 10,000 or 5,000? Take a boom town or a mining town, or a war city, like Hopewell, Va. It would open up untold difficulties; and from the bankers' standpoint of safety, security alone, it would be extremely difficult to sell those bonds unless the Government made them not only instrumentalities, as they have ours, but actually put its guarantee back of them, which it has refused to do in our case.

Senator HITCHCOCK. Will you let me refer to that $40,000 case once more? The farmer gets his $40,000, and $40,000, approximately, of tax-free bonds are issued. The normal tax on the income from the $40,000 of tax-free bonds would be $192 a year. Who gets the benefit of that $192 a year that the Government loses?

Mr. FINLEY. The normal tax on that?

Senator HITCHCOCK. The interest at 6 per cent on the $40,000 is $2,400 a year, and the normal Government tax has advanced now, as I recall it, is 8 per cent on the $2,400. So, that the Government actually loses, by reason of that tax-free exemption clause $192 a year. Who gets the benefit of it?

Mr. FINLEY. The Nation.

Senator HITCHCOCK. Well, who primarily gets the benefit of it? Is it the farmer that borrowed the money?

Mr. FINLEY. I take it so; incidentally he benefits.

Senator HITCHCOCK. What reason, in principle, is there for giving that farmer $192 benefit each year for many years, or giving that to, say, 10 men in a city who want to borrow $4,000 apiece on little homes?

Mr. FINLEY. There is no answer to that except this——

Senator OWEN. I think there is an answer to it, because in one case this $40,000 goes into the increased production of food for the Nation. That is a good reason.

Mr. FINLEY. Yes; I was going to say exactly that.

Senator HITCHCOCK. Let us see about that. The man has borrowed that $40,000. He is going to get his increased production of foods. But you say he has paid $2,000 bonus in order to get the $40,000. Now, in order to do that, you lose to the Government $192 a year indefinitely for the future.

Mr. FINLEY. But a farmer's peace of mind, like everybody else's, is worth something in his productive capacity. He is relieved of the worry as to what he is going to do at the expiration of five years, and what he has got to pay if he can get the money at all to renew, also——

Senator HITCHCOCK. Is there any reason why that farmer, with the security so good as that, should not borrow it of a farm loan bank, without any individuals being in there to make a profit on the transaction?

Mr. FINLEY. I have already tried to cover that, the necessity for a dual system, but that point is going to be gone into again fully by a speaker whom I wish very much you would hear. He is going to cover that again, also what the actual loss to the Treasury is. It is small.

Senator SMOOT. I would like to ask a question. It has been suggested to me that the bill ought to be amended in this particular: That it should provide that the contracts that have already been entered into by these joint-stock land banks should be executed on the basis of existing law. Can you tell me how many contracts, or can you estimate how many contracts are in existence?

Mr. FINLEY. About fifty-four millions.

Senator HITCHCOCK. I think we would have to go further than that. I think if these gentlemen have gone into this private banking business on the assurance of the Government, Congress would not shut them off arbitrarily with what business they have done and leave them so that they are going to lose money on the transaction. I think that there would have to be found some way of liquidation.

Senator SMOOT. There is a bill now before the committee for liquidation of them that will take care of that in every way.

Senator NORRIS. That brings us back to the question that I asked, what should Congress do to save these men who have gone into the business honestly? I would like to have that matter pretty fully discussed—because there is nobody here that wants to do an injury to anybody, and we concede that you have gone into the business rightfully and lawfully. But it does not necessarily follow from that that we must necessarily let that law stand forever. If we repeal the law, the question is what should we do to save the men that have gone into this business.

Mr. FINLEY. I can not answer that now, but if you will get the bill before you——

Senator OWEN. Is the bill before the committee now?

The CHAIRMAN. It is on the calendar in the Senate.

Senator SMOOT. Mr. Chairman, I wish to say, as author of the bill, that I am perfectly willing that the chair should ask unanimous consent of the Senate that the bill be resubmitted to the committee. I have not anything in my heart other than to look out for the interests of the people of the United States—not any one class, but the whole of the people.

Senator NORRIS. I do not think it makes any particular difference, because everybody understands that we will not pass the bill until the hearings are through, but I am willing that the chairman should be instructed to ask unanimous consent to resubmit the bill to the committee.

Senator GRONNA. I am not going to object to that, but I will say this: That there will be other bills considerd along with the Smoot bill, and I do not believe the Smoot bill will do what it ought to do if the joint stock land banks are to, from now on, pay taxes on the bonds, because I do not think it would do justice to them. I am not saying now that I am in favor of the continuing of the joint stock land banks, but I am in favor of at least exempting the bonds that have been issued, and also not only for the term of 20 years, but for

the entire time for which they are to run, that must be taken care of. I have perhaps given this matter as much study as anyone, because I have been at it a long time, and I do not want it to be understood that the Smoot bill is the only bill to be considered, because there will be other bills, and I am preparing one myself.

The CHAIRMAN. There is a bill pending before the committee which provides for the liquidation of the banks. That bill has been introduced by Senator Smoot. It does not seem to me that it is necessary to recommit the pending bill.

Senator GRONNA. No; I do not think so.

Senator NORRIS. I do not think it makes any difference, except on the face of it it would probably indicate a little more fairness. I do not care, as far as I am concerned, because the same result is going to happen.

Mr. FINLEY. As our time is limited, may I ask that you now hear Mr. Traylor?

STATEMENT OF MR. M. A. TRAYLOR, PRESIDENT FIRST SAVINGS & TRUST CO., CHICAGO, ILL.

Mr. TRAYLOR. Gentlemen of the committee, I am president of the First Savings & Trust Co., Chicago, Ill., and not interested in the Federal farm-land banks or joint stock-land banks. My interest in this matter is that of a citizen, as a distributor of securities. In your report you say:

> The accumulation of large aggregations of capital, wholly exempt from any and all forms of taxation, is wrong in principle and should be discontinued. The large taxpayers will gradually absorb these bonds, which will contribute nothing to the support of the Government.

I affirm that, with all the confidence I have and knowing what is actually happening, the drift toward a tax-exempt class in this country, since the income tax became a factor in security ownership has been at a rate that, from our own knowledge of what we are doing in our own institution, is amazing and alarming. With that admission, I present myself to this bill with this thought only: Will the passage of the Smoot bill, relieving joint stock land bank bonds from exemption from taxation, cure the evil? What will follow the repeal of the joint stock land bank tax exemptions?

The Senator has suggested that a bill is now pending, or, rather, that pressure has been brought on the Land Bank Board and on Congress, to increase the limit of loans to be made by the Federal land banks. The expressed intention of the Senate to be fair to the joint stock land banks is sufficient to guarantee that they want to be fair, and that is my purpose.

Senator SMOOT. Are you in favor of the increased limit, to increase the limit?

Mr. TRAYLOR. I was going to make the statement that if the joint-stock land banks are rendered incapable of meeting the demand for loans of $25,000 and $50,000 that they are now making the pressure will be so strong upon Congress to increase the limit of loans to be made by the Federal land banks that it will be impossible, in my judgment, to resist it.

Senator GRONNA. Where does that pressure come from?

Mr. TRAYLOR. From the farmers themselves.

Senator GRONNA. The gentleman is entirely mistaken. The presidents of nine of the Federal farm land banks are opposed to the increase, and only three of them are for it.

Mr. TRAYLOR. I am absolutely in accord with that. I do not think it should be——

Senator GRONNA. So do not waste your time about that. I am only one member of the committee, but I think I can say that there will be no increase.

Senator SMOOT. I want you to correct your statement that the farmers of the country want the increase.

Mr. TRAYLOR. I can only speak of those I know about. They do in Illinois and Iowa.

Senator NORRIS. I think the pressure will be just as he says. I do not agree to it; but I think there will be that kind of a pressure.

Mr. TRAYLOR. What I am working toward is just this: If that does not follow, then I have an idea that this may follow, that the States themselves will—as South Dakota and North Dakota have done—pass their own tax-exempt security laws, or pass their own land-bank laws, that will permit them to issue tax-exempt securities, which are beyond the power of Congress to reach.

Senator GRONNA. In order to be correct, North Dakota has repealed the law exempting mortgages from taxation.

Mr. TRAYLOR. In her own State?

Senator GRONNA. Yes.

Senator SMOOT. Utah had a similar law, but repealed it, and I think every State that tries it will do so.

Mr. TRAYLOR. Then, if neither the joint-stock land banks nor the Federal land banks are permitted to increase their loans—and I hope they will not be—and the States do not take up the loans, as South Dakota is now doing—has already loaned over $20,000,000, perhaps, which is tax exempt, and which is beyond the reach of Congress—the repeal of this bill would go just as far toward stopping tax-exempt securities. But is it better to have two classes of banks, as we have to-day, responding to the requirements of farmers for land development, or would it be better for Congress to begin now in the right direction, if possible—and this is the thought I want to bring to you, and nothing more——

Senator SMOOT. Before that, may I ask you if you are familiar with the average amounts loaned by the Federal land banks?

Mr. TRAYLOR. I had read the statistics; yes.

Senator SMOOT. The St. Paul bank has furnished me with a complete statement showing the average amount loaned out of thirty-six million is $2,500.

Mr. TRAYLOR. That is very admirable, and if they can keep it to that basis they are serving the people that need help.

Senator SMOOT. Serving the people that Congress intended should be served.

Mr. TRAYLOR. But, gentlemen, what I want to talk to you about may not be directly on this bill, but it is the danger that is accumulating from tax-exempt securities in this country. You are talking

about what these tax exemption securities are. A man with an income of $5,000, a 5 per cent bond equals 6.17. On $11,000, it is equal to 6.37.

Now, then, gentlemen, with the income tax as it is—and it is going to stay—and this says nothing about the local taxes that escape just as well, but with the income taxes where they are, and Government expenses where they are bound to remain, this becomes a serious question to the country, this multiplying of tax-exempt securities; and it is time now, with the railroads and private corporations demanding and requiring securities to be floated, that we go much further than simply the repeal of the bill, and attempt in some way to reach that $600,000,000 of municipal securities that were issued during the present year—millions and millions of road bonds, school district bonds, railroad bonds, and every character of city and municipal bonds that is going on the market, and that we know is going directly into the asset holdings of the largest taxpayers in this country to such an extent that it is going to be absolutely impossible to finance your railroads, to finance your private corporations, your industrial enterprises of any character, unless that is stopped.

And my thought is and my feeling is—and that is why I came here at the request of these gentlemen—that you can not reach the evil by the repeal of this exemption or by the passage of this bill, which removes the exemption.

Senator GRONNA. Let me understand you. You are in favor of repealing the exemption of all the Federal farm loans?

Mr. TRAYLOR. Of all the Federal farm loans and, going beyond that, I mean that I feel that the tax exemption on all securities should be removed, and, of course, that would include the exemption on the bonds of both types of land banks. But unless an effort is to be made to reach municipals and others which constitute the great bulk of this evil, it will be of little importance whether the exemption remains on farm-loan bonds or not. Also I want to state emphatically that it would be wrong in principle and entirely futile in results to remove the exemption on bonds of the joint-stock land banks if the exemption is still to apply to the bonds of the Federal land banks. To get at the great amount of municipals and other exempt securities is more important. But probably this is much harder to do—possibly a constitutional amendment will be necessary.

Senator GRONNA. Of course we are not considering that now.

Mr. TRAYLOR. I understand.

That is briefly what I have in mind. I have a lot of tables I would like to file. This is income derived from tax-exempt securities in comparison with taxable securities:

TAX-FREE v. TAXABLE BONDS.

A tabulation comparing income from tax-free and taxable securities under Federal income-tax rates affecting 1919 income.

[The income from certain United States Government and all municipal bonds is exempt from the Federal income tax. Under the income-tax law affecting 1919 income taxable bonds are subject to taxes ranging from 4 per cent to 73 per cent, according to the amount of income. This table has been compiled to show the yield which taxable bonds must return to equal the return from tax-free bonds yielding from 3½ per cent to 7 per cent. Example: Individual with income of $50,000 purchases a taxable bond to yield 6.52 per cent. His tax on 1919 income from this bond is at rate of 31 per cent (normal tax, 8 per cent plus surtax on income between $48,000 and $50,000, 23 per cent), leaving actual income of 4½ per cent. Rates of interest given at top of columns represent yield from tax-free bonds. The equivalent yields from taxable bonds are given below for various amounts of income, while it is believed that the figures in the table are correct, their accuracy is not guaranteed.]

Income.	Total tax.	3½ per cent.	4 per cent.	4¼ per cent.	4½ per cent.	4¾ per cent.	5 per cent.
	Per cent.						
$10,000	11	3.93	4.49	4.78	5.06	5.34	5.62
$15,000	14	4.07	4.65	4.94	5.23	5.52	5.81
$20,000	16	4.17	4.76	5.06	5.36	5.65	5.95
$25,000	19	4.32	4.94	5.25	5.56	5.86	6.17
$30,000	21	4.43	5.06	5.38	5.70	6.01	6.33
$35,000	24	4.61	5.26	5.59	5.92	6.25	6.58
$40,000	26	4.73	5.41	5.74	6.08	6.42	6.76
$45,000	29	4.93	5.63	5.99	6.34	6.69	7.04
$50,000	31	5.07	5.80	6.16	6.52	6.88	7.25
$60,000	36	5.47	6.25	6.64	7.03	7.42	7.81
$70,000	41	5.93	6.78	7.20	7.63	8.05	8.47
$80,000	46	6.48	7.41	7.87	8.33	8.80	9.26
$90,000	51	7.14	8.16	8.67	9.18	9.69	10.20
$100,000	56	7.95	9.09	9.66	10.23	10.80	11.36
$150,000	60	8.75	10.00	10.63	11.25	11.88	12.50
$200,000	64	9.72	11.11	11.81	12.50	13.19	13.89
$300,000	68	10.94	12.50	13.28	14.06	14.84	15.63
$500,000	71	12.07	13.79	14.66	15.52	16.38	17.24
$1,000,000	72	12.50	14.29	15.18	16.07	16.96	17.86
Over $1,000,000	73	12.96	14.81	15.74	16.67	17.59	18.52

Income.	Total tax.	5¼ per cent.	5½ per cent.	5¾ per cent.	6 per cent.	6½ per cent.	7 per cent.
	Per cent.						
$10,000	11	5.90	6.18	6.46	6.74	7.30	7.87
$15,000	14	6.10	6.40	6.69	6.98	7.56	8.14
$20,000	16	6.25	6.55	6.85	7.14	7.74	8.33
$25,000	19	6.48	6.79	7.10	7.41	8.02	8.64
$30,000	21	6.65	6.96	7.28	7.59	8.23	8.86
$35,000	24	6.91	7.24	7.57	7.89	8.55	9.21
$40,000	26	7.09	7.43	7.77	8.11	8.78	9.46
$45,000	29	7.39	7.75	8.10	8.45	9.15	9.86
$50,000	31	7.61	7.97	8.33	8.70	9.42	10.14
$60,000	36	8.20	8.59	8.98	9.38	10.16	10.94
$70,000	41	8.90	9.32	9.75	10.17	11.02	11.86
$80,000	46	9.72	10.19	10.65	11.11	12.04	12.96
$90,000	51	10.71	11.22	11.73	12.24	13.27	14.29
$100,000	56	11.93	12.50	13.07	13.64	14.77	15.91
$150,000	60	13.13	13.75	14.38	15.00	16.25	17.50
$200,000	64	14.58	15.28	15.97	16.67	18.06	19.44
$300,000	68	16.41	17.19	17.97	18.75	20.31	21.88
$500,000	71	18.10	18.97	19.83	20.69	22.41	24.14
$1,000,000	72	18.75	19.64	20.54	21.43	23.21	25.00
Over $1,000,000	73	19.44	20.37	21.30	22.22	24.07	25.93

Mr. TRAYLOR. I have here a memorandum as follows:

MEMORANDUM.

Federal farm land bank and joint-stock land bank bonds not taxable. Bonds bear 5 per cent interest—selling at present time to net 4¼ per cent to the investor.

Municipal bonds sell between 4.60 and 4¾ per cent. These bonds are exempt from all income taxes, but are subject to personal property taxes in most of

the States. Being tax exempt, neither the land bank bonds nor the municipals are admissible assets in computing invested capital for the purpose of excess profits taxes.

The Federal land bank bonds are issued up to twenty times the amount of their capital; joint-stock land bank bonds fifteen times.

On a minimum of $250,000 capital, the Federal land banks could issue $5,000,000 of bonds, joint-stock land banks $3,750,000. Estimating 1 per cent profit, the annual profit on minimum capital would be $50,000 for the Federal and $37,500 for the joint-stock land banks.

As a basis for figuring, take a $50,000 income—4¾ per cent bond tax free is equal to a 6.88 per cent taxable bond. $50,000 income at 5½ per cent is equal to 3.74 per cent; i. e., the normal tax being 8 per cent, the surtax 24 per cent—32 per cent of $55 or 17.60 from a $55 annual income would be equal to 3.74 per cent. If the interest on these bonds were made taxable, they would be on the same basis as other farm loan mortgages, with the following exceptions:

The joint-stock land bank would have double stockholders' liability and restrictions as to amounts loaned in addition to farm securities. The Federal land banks restrictions as to amounts loaned in addition to farm securities (amount $10,000); if made fully taxable as to income, surtaxes and excess profits, these bonds would be most attractive to investors with incomes up to $20,000. For example—estimate selling to yield 5.50 per cent—$55 equal to a tax free bond at 4¾ or $47.50 could stand a tax of $7.50, which is equal to 13½ per cent of $55, being 8 per cent normal, 5 per cent surtax, not taking into consideration the personal property taxes.

Corporations are not interested in these bonds whether taxable or not; as being exempt can not be used as invested capital, and if taxable present heavy taxes of 20 to 40 per cent reduce the net yield to a less price than a 3½ or 3¾ Government bond, which are tax free and can be used as an admissible asset:

Four and three-fourths per cent nontaxable bond—$50,000 income equal to 31 per cent tax—6.88 per cent; 4¾ per cent nontaxable bond—$20,000 income equal to 16 per cent tax—5.65 per cent; 4¾ per cent nontaxable bond—$100,000 income equal to 56 per cent tax—10.80 per cent; 4¾ per cent nontaxable bond—$200,000 income equal to 64 per cent tax—13.19 per cent; 4¾ per cent nontaxable bond—$300,000 income equal to 68 per cent tax—14.84 per cent; 4¾ per cent nontaxable bond—$500,000 income equal to 71 per cent tax—16.38 per cent; 4¾ per cent nontaxable bond—$1,000,000 income equal to 72 per cent tax—16.96 per cent.

STATEMENT OF EVANS WOOLLEN, PRESIDENT FLETCHER JOINT-STOCK LAND BANK, INDIANAPOLIS, IND.

Mr. WOOLLEN. I wish, if the committee please, to read a statement of a page and a half and then, without comment, to leave copies of the statement with members of the committee, holding myself in readiness to answer any questions which the commitee may wish to put.

The question arising from Senator Smoot's bill is not as to the expediency of maintaining a governmental system of rural credits; it is not as to the effectiveness, generally, of the Federal farm-loan act; it is not whether, in view of the change in conditions since 1916, it would be well to modify the tax exemption on all farm-loan bonds; but it is as to the expediency of withdrawing from the joint-stock land banks the privilege of issuing tax-exempt bonds.

This question is to be answered not at all with reference to the wish of the owners of the joint-stock land banks to continue in business, but by the application of two tests. First, at the joint-stock land banks so functioning as to constitute them a helpful part of the system established by the Federal farm-loan act to provide capital for agricultural development and to equalize rates of interest on farm loans; and, second, if the answer be affirmative, then can the joint-stock land banks continue to function without the privilege of issuing tax-exempt bonds?

As bearing on the first test, the following facts are submitted:

Nine millions of private capital have been brought to the service of the system.

Loans by joint-stock land banks during month before last were 38 per cent of the total under the system.

The joint-stock land banks have developed their business without absorbing any considerarble amount of business that would otherwise have gone to the Federal land banks which constitute the other part of the system.

The joint-stock land banks lend only for agricultural development, and never to any borrower more than 15 per cent of the lender's capital stock, or more than $50,000; the maximum rate of interest is 6 per cent, and there are no commissions.

The joint-stock land banks are functioning in such States as Virginia, West Virginia, Louisiana, Tennessee, Minnesota, Montana, Texas, and California, as well as in the corn belt.

As bearing on the second test, the following facts are submitted:

Inasmuch as the maximum spread between the mortgage rate and the bond rate is 1 per cent, and the maximum bond issue is fifteen times the capital, it follows that the gross earning can not exceed 15 per cent plus any realization on the capital. From these maximum gross earnings must be deducted the expenses of doing business and losses on account of unavailed-of lending capacity and of temporarily idle funds.

As of November 30, 1919, 30 joint-stock land banks, with a paid-in capital of $8,638,650, having been in business for periods ranging up to 31 months, showed net profits of $224,663.58, being at the rate of less than 3 per cent per annum. Of the 30 banks, 16 had made money, 11 had lost, and 3 were even.

The joint-stock land banks are in competition with mortgage lenders, which, to a large extent, as in the case of insurance companies and savings banks, do not pay taxes on their loans.

As bond sellers, they are in competition with the billions of Government securities and the billions more of municipal securities.

If the committee pleases, I would like to leave a memorandum with each member of the committee, and now I will be glad to answer any questions that may be in the minds of Senators.

Senator HITCHCOCK. These first few years are necessarily not very profitable?

Mr. WOOLLEN. Quite so. They are the years within which the burden is borne of putting the business on the books, and it is for the reason that the years are not normal years that in my statement I have given first the possible earnings, theoretically, as really being more significant than the earnings of 3 per cent, which have actually been realized.

Senator PAGE. Has the last year been fairly normal in its conditions in relation to your lank banks—the joint-stock land banks?

Mr. WOOLLEN. Do you address me with reference to my bank?

Senator PAGE. Well, speaking generally, the joint-stock land banks. Have they been functioning or acting in a normal way?

Mr. WOOLLEN. No. The banks have been in existence up to 31 months. More than half of them have been in existence for such a brief period as not to have involved their really getting under way.

Senator PAGE. And the profits for the last year have been what?

Mr. WOOLLEN. I can not say. The profits realized throughout the period by all the banks have been less than 3 per cent.

Senator PAGE. But that would hardly be a fair way of stating the matter.

Mr. WOOLLEN. As I understand Senator Hitchcock's question, I do not submit that as a fair test of realization to be expected in the future.

Senator HITCHCOCK. Could you make any estimate of what the average profits would be over a period of 10 years?

Mr. WOOLLEN. Our own hope has been that the realization would run from 8 to 10 per cent.

Senator NORRIS. You say in your statement of the 30 banks that 16 had made money, 11 had lost, and 3 were even. Now, of those 16 that made money, what time had they been in existence? In other words, I want to find out, if I can, from you whether the banks that have made money had been in existence longer than those that had not made money?

Mr. WOOLLEN. I do not think such a conclusion can be drawn. I have a statement here showing the earnings of each of the 30 banks. It will be found on reference to this statement that the first of the banks to be organized showed, as of November 30, undivided profits of $33,000. The second one to be organized showed undivided profits of $4,000. Whereas the third bank organized, organized in June, 1917—the one of which I am an officer—showed, as of November 30, a loss of $24,000. Would you like to have this in your hand?

Senator OWEN. I ask to have it put in the record.

Senator NORRIS. If you will put that in the record, it will be very illuminating.

(The statement referred to follows:)

Statement showing gross income, deductions from income, expenses, etc., of the joint-stock land banks from organization of each bank to Nov. 30, 1919.

Joint-stock land bank and locations.	Date chartered.	Number of months operating at Nov. 30, 1919.	Gross income from organization to Nov. 30, 1919.	Deductions from income (farm loan bond interest, etc.).	Expenses to Nov. 30, 1919.	Dividends paid to Nov. 30, 1919.	Carried to reserve account to Nov. 30, 1919.	Undivided profits Nov. 30, 1919.	Percentage of profit.	Excess of expenses over earnings Nov. 30, 1919.	Percentage of loss.
Iowa Joint Stock Land Bank, of Sioux City, Iowa	Apr. 24, 1917	31	$101,123.10	$19,976.50	$24,303.35	$17,500.00	$5,954.54	$33,098.71	8.8		
Virginian Joint Stock Land Bank, of Charleston, W. Va.	May 7, 1917	30	265,141.08	147,868.91	88,033.09	15,000.00	10,205.78	4,035.30	4.6		
Fletcher Joint Stock Land Bank, of Indianapolis, Ind.	June 28, 1917	29	255,754.21	268,617.23	16,773.19					$24,636.21	3.4
First Joint Stock Land Bank, of Chicago, Ill.	July 25, 1917	28	775,538.34	280,106.04	51,132.22	50,674.00	40,000.00	43,624.68	11.5		
Liberty Joint Stock Land Bank, of Salina, Kans.	Jan. 9, 1918	22	280,383.50	196,469.78	36,903.34	16,020.83	7,349.22	23,640.33	8.0		
Mississippi Joint Stock Land Bank, of Meridian, Miss.	June 22, 1918	17	33,483.65	20,864.88	6,813.94			5,804.83	1.6		
Arkansas Joint Stock Land Bank, of Memphis, Tenn.	do	17	25,963.90	15,638.00	5,590.31			4,737.59	1.3		
Lincoln Joint Stock Land Bank, of Lincoln, Nebr.	July 12, 1918	16	315,696.42	228,066.50	114,289.50					26,689.67	3.4
Badger Joint Stock Land Bank, of Milwaukee, Wis.	Sept. 6, 1918	14	77,605.20	9,394.18	56,247.47		1,580.98	10,382.57	4.1		
First Joint Stock Land Bank, of Fort Wayne, Ind.	Dec. 20, 1918	11	30,241.73	13,241.12	11,637.27			5,363.34	2.3		
First Joint Stock Land Bank, of Minneapolis, Minn.	Jan. 14, 1919	10	46,187.08	14,973.94	27,795.40			3,417.74	1.6		
Illinois Joint Stock Land Bank, of Monticello, Ill.	Jan. 24, 1919	10	76,519.25	50,488.25	10,960.16			15,072.84	7.2		
Montana Joint Stock Land Bank, of Helena, Mont.	Apr. 15, 1919	7	24,457.01	16,716.90	17,743.25					10,003.14	6.8
Fremont Joint Stock Land Bank, of Fremont, Nebr.	Apr. 17, 1919	7								5,451.06	2.9
Des Moines Joint Stock Land Bank, of Des Moines, Iowa	Apr. 22, 1919	7	29,242.65	15,500.30	8,011.21			5,731.14	3.9		
First Texas Joint Stock Land Bank, of Houston, Tex.	Apr. 23, 1919	7	31,251.77	19,024.71	11,381.42			845.64	.5		
Peoples Joint Stock Land Bank, of Omaha, Nebr.	May 8, 1919	6	17,100.83	5,547.97	7,785.66			3,857.20	2.6		
Colonial Joint Stock Land Bank, of Norfolk, Va.	May 12, 1919	6	1,692.49		7,265.84					5,573.35	9.0
Central Iowa Joint Stock Land Bank, of Des Moines, Iowa	May 15, 1919	6	12,592.94	3,741.67	9,966.17					1,114.90	.9
Virginia Joint Stock Land Bank, of Norfolk, Va.	June 11, 1919	5	2,884.86	165.00	4,603.49					1,883.63	2.3

Statement showing gross income, deductions from income, expenses, etc., of the joint-stock land banks, etc.—Continued.

Joint-stock land bank and locations.	Date chartered.	Number of months operating at Nov. 30, 1919.	Gross income from operation to Nov. 30, 1919.	Deductions from income (farm loan bond interest, etc.).	Expenses to Nov. 30, 1919.	Dividends paid to Nov. 30, 1919.	Carried to reserve account to Nov. 30, 1919.	Undivided profits Nov. 30, 1919.	Percentage of net profit.	Excess of expenses over earnings Nov. 30, 1919.	Percentage of loss.
Southern Minnesota Joint Stock Land Bank, of Redwood Falls, Minn.	June 25, 1919	5	$20,447.93	$17,149.72	$9,498.73			$3,810.48	3.7		
Dallas Joint Stock Land Bank, of Dallas, Tex.	July 3, 1919	4	11,960.46	2,011.15	26,306.44					$16,410.11	19.7
Union Joint Stock Land Bank, of Richmond, Va.	July 19, 1919	4	4,048.50	8,659.63						4,611.13	6.5
Commerce Joint Stock Land Bank, of Wichita, Kans.	Aug. 19, 1919	3	10,888.50	2,066.70	7,956.17			875.63	1.4		
San Antonio Joint Stock Land Bank, of San Antonio, Tex.	Sept. 15, 1919	2	2,981.53	1,038.89	9,567.33					7,624.69	18.2
California Joint Stock Land Bank, of San Francisco, Calif.	Sept. 19, 1919	2	1,100.00		1,378.19					278.19	13.3
Lafayette Joint Stock Land Bank, of Lafayette, Ind.	Oct. 1, 1919	2	465.29					465.29	1.1		
Kansas-Missouri Joint Stock Land Bank, of Topeka, Kans.	Nov. 10, 1919										
First Illinois Joint Stock Land Bank, of Champaign, Ill.	Nov. 11, 1919										
First Joint Stock Land Bank, of Lake Charles, La.	Nov. 24, 1919										
State Savings Joint Stock Land Bank, of Quincy, Ill.	Dec. 4, 1919										
Total			2,464,772.84	1,659,685.43	580,972.77	$99,194.83	$85,090.52	164,763.31		104,385.08	

NOTE.—For banks operating more than 6 months the average earnings is less than 3 per cent per annum.

Mr. WOOLLEN. I will not detain the committee further unless there are further questions.

The CHAIRMAN. Senator Smoot desires to make a statement. It will be impossible for him to be here this afternoon, and therefore it will be necessary to adjourn this hearing until Monday. I think it would be well for the gentlemen who have testified in opposition to the bill to appear here Monday, as there may be other questions that members of the committee would like to ask, and some of the gentlemen who have already appeared may desire to make further statements.

Senator HENDERSON. The opinion seems to be that the Federal land bank is for the benefit of the small farmer and the joint-stock bank is for the benefit of the larger farmer.

Mr. WOOLLEN. I would say that the act is neither for the benefit of the large or the small farmer, but simply for the promotion of agriculture, for agricultural development, and the equalization of farm rates, and that, to the end that this purpose be achieved, the two instrumentalities have been established under the act, one of which operates more largely with the small farmer and the other more largely with the larger farmer.

Senator HENDERSON. Is that due to the amount you can loan under one act in excess over the other?

Mr. WOOLLEN. The fact that the Federal land banks serve more largely the small farmer is due to the fact, of course, of the limitation in considerable part.

Senator OWEN. And to its structure?

Mr. WOOLLEN. Yes.

Senator OWEN. The structure of the land-bank act?

Mr. WOOLLEN. I was about to add that, the instrumentality established in the Federal land bank, as, of course, Senators have in mind, a cooperative institution, to which some farmers prefer to resort, whereas other farmers prefer to resort to the noncooperative banks.

Senator HENDERSON. And the two banks are for the purpose of serving the same function and of giving benefit to the same industry?

Mr. WOOLLEN. Quite so.

Senator HENDERSON. Then, is there any reason that you know of why any difference should be made in this act between the Federal land banks and the joint-stock land banks?

Mr. WOOLLEN. In the matter of limitation as to amount?

Senator HENDERSON. Yes; and exemption.

Mr. WOOLLEN. First, as to difference in limitation—although I understand from the statement by Senator Gronna that that, perhaps, is not a live question—I would see no reason for restricting Federal land banks as they are restricted, excepting the fact that they are cooperative institutions into which borrowers necessarily have to adventure their funds. That, I take it, is the real reason for the limitation.

In answering your second question, I see no reason whatever for the withdrawal from the joint-stock land banks of the tax-exempt feature, unless it be established that they are failing to function as a helpful part of the system, helpful in the development of agriculture.

Senator NORRIS. In other words, you think that the limitation as to tax exemption should be the same as to both systems?

Mr. WOOLLEN. Yes; assuming that both systems are helpful in the achievement of the primary purpose.

Senator NORRIS. Yes. Then would you be willing, if the law remained that way, to place the same restrictions as to amount and as to the purpose of the loan upon the joint-stock banks as on the Federal farm loan banks?

Mr. WOOLLEN. Speaking for myself, and not in representative capacity, yes.

Senator NORRIS. Well, let me ask you the question in your representative capacity, what do the joint-stock land bank men say on that proposition? Are they willing that the same limitations should be applied to their loans and the purpose for which the money can be used, and as to the class of persons to whom they can loan it, and as to the amount they can loan, as applies under the law to the Federal farm loan banks?

Mr. WOOLLEN. If the Senator please, I prefer that that question be answered by the chairman.

Senator OWEN. I think it was answered a little while ago. The president stated that he would be glad to have it appear in the act.

Mr. FINLEY. As to purpose.

Senator NORRIS. But he did not say that he would be willing to have all these limitations apply on it, but as to purpose, he was willing; and I judge from that that he would not be willing as to the other limitations. That is not the only difference.

Mr. WOOLLEN. I will undertake to answer, although my answer will not be conclusive, and then ask if Mr. Finley will supplement the answer with anything which he thinks will better represent the sentiment of the joint-stock land banks.

The Senator asks whether we think the joint-stock land banks will be willing if the limitations on the two kinds of banks be made the same. My answer is that the joint-stock land banks ought to be willing, unless so to do would make it impossible for them to function usefully and profitably, and I do not see that it would.

The question, then, ought to be answered, I think, exclusively with reference to whether by identity of limitations the primary purpose of the act could be best achieved. If it is better for the system that the Federal land banks be not restricted otherwise than as the joint-stock land banks are restricted, then I think the restrictions should be so removed.

Does that express, Mr. Finley, the view of the committee so far as you have it in mind?

Mr. FINLEY. I think, Mr. Chairman, I tried very hard to cover that in the first case, and the time is so very short I will devote but a sentence or two to it now.

I take it we are all agreed that we are willing that the purposes of the act be made very plain in the act, that we all be held to it on the same terms; that is, both the joint-stock land banks and the Federal land banks. Our conception of the legitimate field for each would not necessarily call for the same limitations on the loans.

Senator NORRIS. Well, now, would you be willing that the joint-stock land banks should have the amount, for instance, that they can loan fixed the same as is fixed for the Federal farm loan banks? That is one difference.

Mr. FINLEY. Identically the same?

Senator NORRIS. Yes.

Mr. FINLEY. No, sir.

Senator NORRIS. Would you be willing to say that the joint stock land bank should loan to men who are only actually living on and cultivating the land?

Mr. FINLEY. Perfectly willing in that respect for them to be identical.

Senator NORRIS. Well, is there any other difference except as to amount that you think ought to remain between the two systems?

Mr. FINLEY. Just offhand, I do not recall that there is.

Senator NORRIS. And you would be willing to have the law changed if it remained so that the joint stock bank should be identical with the farm loan bank except as to the amount of the loan?

Mr. FINLEY. As to the general purpose. Of course, the function is different, because it is an entirely different organization.

Senator NORRIS. I know you have different men and a different organization, but that does not quite answer my question. Do you want any other difference, as far as the law is concerned? You still have a different organization, it is true, but do you want to be placed on a basis that is absolutely on an equality with the Federal farm loan bank in every respect excepting as to the amount of the loan that you can make?

Mr. FINLEY. We would be decidedly the gainers by it if that were so.

Senator NORRIS. Well, that still is not quite an answer. I am not questioning whether you would be a gainer or a loser, but whether you would be satisfied if the law were changed in that way.

Mr. FINLEY. Personally, yes. I am only authorized on that to say for the association that we have no objection, as I have already said, to the rules and regulations issued by the Farm Loan Board that holds us practically to the same purpose and to the same kind of a farmer. And we are perfectly willing that that should go into the law and be legal. That is as far as I am authorized to go for the association.

It is time, as I understand it, to adjourn, but there is a formal statement we would like to have our secretary make before you adjourn, and we are anxious that the Senators who are here should hear this.

STATEMENT OF MR. W. W. POWELL, SECRETARY OF THE AMERICAN ASSOCIATION OF JOINT-STOCK LAND BANKS.

The joint-stock land banks petitions your committee to reconsider its recommendation that Senate bill 3109 pass without amendment, and respectfully submits herewith its reasons.

This bill amends section 26 of the Federal farm loan act so that farm loan bonds issued by joint-stock land banks would no longer "be deemed and held to be instrumentalities of the Government of the United States," and would become taxable; the bonds issued by Federal land banks remaining as now, tax free. This bill amends the act in no other particular.

Three parties at interest are to be considered in discussing any proposed amendment to the Federal farm loan act. These parties are (1) the public, (2) the borrower, (3) the money lender.

The public interest in agriculture is greater even than that of the farmer.

The borrower's interest in the maintenance of an adequate and efficient system of farm credits is second only to that of the public.

The banker has a very considerable interest in the farm-credits system and the laws creating and regulating that system, but convenience of the money lender is the last thing to be considered, and the profit to be permitted need be only sufficient to make certain that private capital will enter the field of regulated farm finance and undertake to perform the service contemplated by the act.

Joint-stock land banks recognize that their right to exist in their present form and their right to exercise the privilege of issuing tax-exempt farm mortgage bonds granted by the farm-loan act are predicated upon the assumption that they are performing a public service, important to the general welfare.

It becomes important, then, to consider what is the public interest in this new system of farm credits before proceeding to amend the law creating the system.

By way of correcting the record and clearing the atmosphere of a cloud of misinformation, so that consideration of this matter may proceed without prejudice, we desire to correct the record and to submit official data which will remove to a large degree the misunderstanding of the conditions and misapprehension as to the facts.

First. It is not the fact that any joint-stock land bank has made a profit of 30½ per cent, as has been stated on the floor of the Senate. Neither is it true that any bank has made a profit of 20 per cent. Most of these banks as yet have shown no profit. There is no opportunity for any joint-stock land bank, with the interest rate limited by the act to 6 per cent and with turnovers of capital limited to 15 times, to make an excessive profit. It has not been done, and it can not be done. There are no official records in the office of the Farm Loan Board or other authentic figures anywhere available to warrant such statements as have been made regarding "excessive profits." We are filing as exhibits on this point a memorandum of the Farm Loan Board, and also a table setting forth the gross income and disbursements of each bank as shown by the records of the Farm Loan Board. I refer to Exhibits A1 and A2. [Filed in Mr. Woollen's statement.]

Second. There are not now pending, and never have been pending at any time, 100 applications for joint-stock land-bank charters, as has been stated on the floor of the Senate and widely quoted and circulated to the prejudice and injury of these banks. Neither have there been pending at any time a large number of charters for joint-stock land banks. At the time this statement was made, July 1, 1919 (see Congressional Record, p. 2260), only 21 banks had been chartered and only one application for charter was pending. We are filing as Exhibit B a copy of a letter from the secretary of the Farm Loan Board on this point.

Third. It is not the fact, as has been stated on the floor of the Senate and as was stated before the House Committee on Banking and Currency, that there is no limit to the amount a joint-stock land bank may lend to a single individual. A ruling of the Farm Loan Board fixed a limit of $50,000. We are filing as Exhibit C a copy of the ruling of the board on this point.

Fourth. It is not the fact, as has been stated on the floor of the Senate and as was stated before the House Committee on Banking and Currency, that joint-stock land banks may lend money for any purpose. By a ruling of the Farm Loan Board the loans of joint-stock land banks are limited to agricultural purposes. The same ruling imposes upon these banks responsibility for seeing that such loans are not put to other purposes, under penalty of forfeiture of their charters. In support of this we call attention to Exhibit C.

Fifth. It is not the fact that these banks, limited as they are to a 6 per cent interest rate, can continue to operate and serve the purpose of the act if they are denied the privilege of issuing tax exempt bonds. They might continue if the 6 per cent limit on the interest rate were removed, but to remove that limit would be to defeat the purpose of the act, namely, to reduce and equalize rates of interest so that agriculture as an essential industry may have the benefit. In support of this statement I refer to a letter put into the record this morning which was sent out by the Farm Mortgage Brokers' Association, and in which it is declared in effect that land banks can not continue to make loans at low rates of interest if their bonds are subject to tax.

Sixth. It is not the fact that joint-stock land banks enjoy privileges which threaten the existence of the Federal land banks. In no essential particular is there an advantage enjoyed by the joint-stock land banks. On the contrary, in two important particulars Federal land banks have tremendous advantage over the joint-stock land banks. These particulars are found in the purchase of Federal land bank bonds by the United States Treasury and in that provision of the act which permits the Federal banks to lend money to the amount of 20 times their capital stock instead of only 15 times the capital, as is the provision applying to joint-stock banks. We are filing as Exhibit E a circular issued by the National City Co., of New York, showing how the bonds are certified, engraved, advertised, and marketed.

These statements are made at this time because it seems that all argument in support of Senate bill 3109 is based upon misinformation, and because it seems unwise and unprofitable to attempt fair and unprejudiced consideration of this bill until this much of the record is corrected.

With all Europe clamoring for food and looking to America for its food supply, and with the cost of food products in the United States constantly increasing, it seems strange indeed to find at such a time a tendency on the part of some to consider the farm loan act solely or at least chiefly with reference to its influence upon the Government's revenues.

In its title the Federal farm loan act is described as one—

> to provide capital for agricultural development, to create a standard form of investment based upon farm mortgages, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositaries and financial agents for the United States, and for other purposes.

The public interest in the production of food and everything that may effect an increase or decrease in the food supply is paramount to every other interest in the matter. Were this not so, the farm loan act with its present provisions never would have passed Congress; there never would have been joint stock land banks; there never would have been Federal land banks, and there never would have been in this country such a thing as a tax-exempt farm mortgage bond. The purpose of the farm loan act is to increase agricultural production that the Nation may have plenty of food and at reasonable prices.

Writing in the Saturday Evening Post, of the date of December 27, 1919, Herbert Hoover, Food Administrator during the war, and the recognized authority on the world's food supply, says:

> The population of the United States keeps ready pace with our output. We can not stand a reduction of the per cent in our total production without the invasion of privation into our firesides. Therefore, sudden disturbance is disaster.

Writing in the January issue of Farm and Home, Mr. Hoover also says:

> The world situation is such that all our food stuffs will again be needed if the world is to be carried over without starvation.
>
> In the great American export staples of wheat, oats, barley, rye, pork products, beef products, dairy products, and cotton seed products there is a sufficiency to get the world through, but only on a narrow margin.

Speaking in Chicago before the annual convention of the Association of American Agricultural Colleges and Experimental Stations, Secretary of Agriculture David F. Houston said:

> It is reasonably clear that Europe will be hard pressed for food supplies, at least until after the harvest of 1920. Russia is likely to be a negative factor, so far as exports of food stuffs to other Nations are concerned. European countries in the aggregate probably will not produce this year more than 70 per cent of their prewar normal output. Apparently, Poland, Austria proper, and Italy will be in especially difficult circumstances; and all the central and western European nations will be compelled to import larger quantities of cereals and meat products.

Later, in the same address, Secretary Houston says:

> Many people, ignorant of rural problems talk and write as if food production did not involve the expenditure of capital and labor. The demand of the city is for cheap food, and that more abundantly. There will be farmers enough if the business of farming is made profitable and if rural life is made attractive and healthful. * * * What we need is not back to the land propaganda, but an accelerating of the work for the improvement of the countryside which will render this abandonment of farm unnecessary and the expansion of farming inevitable.

In the expression of these two public servants we find a statement of the public's dependence upon agriculture, which in turn constitutes the public's interest in the bill here under consideration. Surely, with these demands upon agriculture, this is not the time to curtail the credit facilities of the farmer. It is surprising in the face of the demand for increased agricultural production to find some Senators insisting that the only obligation of Congress in this matter is to dispense a sort of charity in the form of a small subsidy to a small group of small farmers to give a measure of relief to their insufferable poverty.

The effect of this bill upon the public interest may be readily understood when it is known, as is the fact, that the joint stock land

banks have received applications for a total of more than $50,000,000 of loans (a large proportion of which are to be used by tenant farmers to buy their first or to finance the farming operations of the 1920 season) and which have been inspected and approved by the Farm Loan Board, and which were to have been closed by March 1 of this year, but which can not be made and will have to be canceled if this bill becomes a law. The inability of the joint stock land banks to close these loans will embarrass thousands of farmers and curtail agricultural production in 22 States; for the embarrassment is not alone to the borrowers, but involves a chain of transactions between farmers, averaging from three to five transactions for every loan applied for. The applicants for these loans will be placed again at the mercy of the old-style farm-mortgage brokers and again will have to pay higher rates of interest, plus exorbitant commission charges, if indeed they are able at this late date to secure loans on any terms in time to be used in this year's agricultural operations.

Evidence that interest rates for such loans will be advanced is not wanting. The following letter was sent out under date of December 16, 1919, by one of the largest and most active farm-mortgage banking concerns in Iowa:

> [A. D. Annis, President, H. F. Rohling, Vice President, A. W. Kynett, Secretary-Treasurer.]
>
> ANNIS & ROHLING CO., FARM MORTGAGE BANKERS,
> *312 Trimble Building, Sioux City, Iowa, December 16, 1919.*
>
> GENTLEMEN: We have received word, officially, that all joint-stock land banks will be unable to finance their March 1 business, owing to inability to float their bonds, and in consequence $15,000,000 loans, which they have already accepted in Iowa and Nebraska, will be thrown on the market again.
>
> We are getting word to all of our field men to immediately follow up any and all choice loans that have been sent to the joint-stock banks, whether accepted by said banks or not, and go after them, and none of the banks will be able to make these loans, and applications and papers will be returned to the borrowers.
>
> No doubt you have in your testimony quite a bunch of this class of business, and would be our idea that you telephone the parties immediately and arrange to make their loans. You will, of course, accept only the choicest business, as our company will scrutinize carefully any and all loans originally submitted through that source.
>
> Yours, truly,
>
> ANNIS & ROHLING CO.,
> E. L. BARKER, *Manager.*

This letter assumes large importance when read in connection with the affidavit of E. F. Hiscocks, of Guthrie, Iowa, as to rate of interest asked and commission required by the Annis & Rohling Co. I will read to you this affidavit, which is as follows:

> STATE OF IOWA,
> *County of Guthrie, ss:*
>
> I, E. F. Hiscocks, being first duly sworn, hereby state that I was asked a rate of interest of 6 per cent and a commission of 10 per cent for a loan with Annis & Rohling Co.
>
> (Signed) E. F. HISCOCKS.
>
> Signed and sworn to before me a notary public in and for Guthrie County, Iowa, this 21st day day of December, 1919.
>
> (Signed) A. M. FAYAN,
> *Notary Public.*

I also read a letter from the president of the First National Bank of Montezuma, Iowa, referring to the past practices of the Titus Loan & Investment Co., of Council Bluffs, Iowa:

FIRST NATIONAL BANK,
Montezuma, Iowa, January 2, 1920.

O. F. SCHEE,
Des Moines, Iowa.

DEAR SIR: I understand there is some legislation against Government land banks. Any change in this law would be a bad thing for the farmers, as for the past several years companies like the Titus Loan & Investment Co. have been charging the farmers 3 per cent to 6 per cent cash commission for a five-year 6 per cent loan, and as high as 2 per cent commission for an extension of a loan for one year. This would be at the rate of 10 per cent for five years. I am inclosing you a few letters showing the commission charged for years by certain loan companies in this State. I have seen this same firm charge as high as $2,000 cash commission for a $20,000 loan.

Very truly,

(Signed) E. D. RAYBURN, *President.*

Referring to the borrower's interest, we see that the public's interest and the borrower's interest are one, and at this point we begin to understand that it is the public and the borrower who get the benefit of the tax exemption and not the banker.

We are now able to appreciate that it would be exceedingly unwise for Congress to enact any legislation at this time which would make it impossible for the joint-stock land banks to make the loans they have contracted to make. Such action should be considered not as to the inconvenience that would be put upon the banks but with reference to the hardships and irreparable injuries that would be inflicted upon the thousands of farmers who are depending upon the loans which have been promised them by the joint-stock land banks, and which have been approved by the Farm Loan Board, but which these farmers can not receive if Senate bill 3109 becomes law.

To show how great and how widespread the embarrassment to farmers would be we are filing a table showing the purposes for which joint-stock land bank loans have been made, and from which the estimate is made that $54,000,000 of loans now applied for and approved can not be closed if this bill is passed. I will call this Exhibit I. By this table it is shown that out of $53,000,000 of loans already made, over $14,000,000 have been made to farmers buying their first land, more than $4,400,000 for improvements and $11,359,000 for the purchase of additional land, while $23,200,000 of the total was for the purpose of paying existing indebtedness.

Now, in the interest of the general welfare, the farmr is urged to "accelerate" his operations, using the language of Secretary Houston. The Secretary had in mind that the farmer should adopt modern methods such as power farming and the introduction of all manner of labor-saving devices in order that the scarcity of farm labor and the high cost of such farm labor as is available might not interfere with production. And all these modern devices require the investment of capital.

The farmer has asked for more capital, for longer terms, and for lower rates of interest. The farm loan act was drafted and placed upon the statute books after an exhaustive study of the systems of agricultural credit in vogue in the older countries of Europe. It was felt that this act would bring relief to the city dwellers who, even at that time, were complaining against the rapidly rising cost

of living. But during the two and one-half years since the farm loan act has been in operation, there have been no normal conditions. The great World War has disturbed all economic and industrial relations. Just what effect the farm loan act might have had upon the cost of living under normal conditions it is quite impossible to determine. However, it is not difficult to understand that it has had a considerable influence upon the food supply of this country and the food supply of the world. We do know that the American farmer, adequately financed, was able to and did respond to the urge of the Government that he increase his production.

The demand of the farmer was for relief from high interest rates and exhorbitant commission charges. It is not necessary to go into detail as to conditions so familiar to all, but it may be important to recite in general terms what were the prevailing interest rates on farm land mortgages in different sections of the country. The rates vary from 5.3 per cent to 10.5 per cent.

In New England group, the lowest rate was 5.3 per cent and the highest 6.2 per cent. That was the average in those States.

In the Middle Atlantic States, New York, New Jersey, and Pennsylvania, 5.6 per cent to 5.8 per cent.

In the East North Central States, that is, Ohio, Indiana, Illinois, Michigan, and Wisconsin, the rate was 5.8 per cent to 7.1 per cent.

In the West North Central States, Missouri, North Dakota, South Dakota, Nebraska, Kansas, Minnesota, and Iowa, from 5.9 per cent to 8.7 per cent.

In the South Atlantic States, from 5.6 per cent in the State of Delaware, where the rate was lowest, to 9.6 per cent in Florida.

In the East South Central States, Arkansas, Louisiana, Oklahoma, and Texas, from 8.4 per cent to 9.6 per cent.

When we come to the mountain States, Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona and Utah, the rates run from 8.9 per cent to 8.7 per cent.

In the Pacific States, Washington, Oregon, California, from 7.6 per cent to 8.7 per cent.

These rates do not indicate, however, the true conditions, because they are averages.

When the hearings were held by the Federal Farm Loan Board for the purpose of dividing the country into districts and locating the 12 Federal land banks as provided in the farm loan act, it was shown that rates of interest on farm mortgages were sometimes as high as 16 per cent, including the commissions paid.

For concrete examples which give rather a vivid picture of conditions then existing, and to some extent still existing, I will file what I will call Exhibit G.

It is important to inquire what aid has been given to the farmer and what stimulus has been given to agriculture under the farm-loan act.

At this time approximately $350,000,000 have been loaned by the joint-stock land banks and the Federal land banks. The total number of farmers to whom these loans have been made is approximately 120,000. The Federal land banks having been in operation for a longer time than the joint-stock banks, have made loans totaling approximately $300,000,000, to about 110,000 farmers.

The joint-stock land banks, having been more recently organized, not all of them are as yet in full operation. Nevertheless, those in operation have made loans amounting to $50,000,000 to approximately 10,000 individual farmers.

All these loans have been made at from 5½ per cent to 6 per cent. No loans have been made at a rate exceeding 6 per cent and no farmer who has received one of these loans from a joint-stock land bank has paid a commission to that bank.

The influence on interest rates throughout the country is distinctly noticeable. Rates have been reduced in every high-interest section of the United States. The saving in interest to the borrowing farmers up to this time is estimated to be about $30,000,000, and the annual saving is increasing at the rate of $10,000,000 a year. This estimate is arrived at by assuming that farmers are borrowing $1,000,000,000 a year, and that the influence of the joint-stock land banks and the Federal land banks upon the rate of interest has been to reduce it at least 1 per cent below what it would now be throughout the country if these banks were not in existence. In sections where the rate formerly ranged from 8 to 10 per cent the prevailing rates are now 6 to 7 per cent. It is estimated that a little more than $4,000,000,000 are invested in farm mortgages for terms running from three to five years, and that there are now approximately $1,000,000,000 of new farm-mortgage loans being made each year. One per cent on $1,000,000,000 a year is a $10,000,000 saving in interest on the new loans made every year. Of course, then, this saving of $10,000,000 a year becomes cumulative. If for the first year these banks were in operation there was a saving of $10,000,000 on the $1,000,000,000 of loans made that year, then the second year there was a second saving of $10,000,000 on the $1,000,000,000 loaned the first year and also a saving of $10,000,000 on the $1,000,000,000 of loans made the second year, making a total of $20,000,000 saved for the second year. The aggregate saving in interest would be $50,000,000 annually five years hence. And the grand total of saving in interest on the $5,000,000,000 of loans made in the five-year period would be approximately $150,000,000.

It has been estimated also that $20,000,000 already have been saved the farmers in commissions. And that in five years the farmers will have been saved $50,000,000 in commissions.

We now come to the subject of money for agriculture and loans for all classes of farmers.

The Federal farm loan act is a law of singular comprehension. It reaches out to cover the ground in different ways. It supplements the national banking system. It seeks to provide credit facilities for those who from the nature of their undertakings can not avail themselves of the facilities afforded by the Federal Reserve System to meet their major needs. While the Federal reserve act does provide the farmer with short-time credit facilities (by authorizing national banks to accept six months farm paper), and while the Federal reserve act also provides some relief in long-time credits (by authorizing national banks to lend as much as 25 per cent of their capital and deposits on farm mortgages running for five years), the farmer still has a great need for long-time credit which can not be met by the credit facilities provided by the reserve act. This need is for long-term amortized loans on a plan which at once will assure

a low rate of interest and a sufficiently long term for payment to enable the farmer to make the farm earn the money with which to pay for itself, just as other business units are made to repay in a period of years the money originally invested in them.

So the Federal farm loan act came into existence to supply this need of agriculture—to the end that all agriculture, all classes of farmers might have the facilities for securing the amount of credit and the kind of credit required. The Federal farm loan act was passed primarily to benefit neither little farmers nor big farmers, neither poor farmers nor rich farmers, nor farmers at all as a class, any more than the Federal reserve act was passed to help either the little merchant or the big merchant, the poor merchant or the rich merchant. The farm loan act was passed "to provide capital for agricultural development," in the interest of the whole Nation and can be defended on no other ground.

Its advantages or disadvantages to individuals and classes are very important, but nevertheless incidental. If farmers small or large or as a class do benefit it should not be begrudged them, especially now when in response to the universal demand they are producing not profiteering, striving ahead not striking.

To fully cover the main object of the act two kinds of land banks were provided for, the Federal and joint-stock land banks, the former actually created by the act and the creation of the latter being authorized by it.

Why two kinds? Because the volume of agricultural production in this country is dependent upon two classes of farmers, one operating a small farm largely by his own labor and that of his family; the other, with more land, operating largely with improved machinery and requiring more capital to finance. To increase production both classes needed long-time credits for permanent improvement. Many small farmers lived in communities where credit was unobtainable except on terms so burdensome that it was frequently more hurtful than helpful. Had the joint-stock land banks alone been authorized their natural tendency would have been to overlook such sections where credit in the interest of increased production by small farmers was most needed and confine their operations to the more developed territory, just as the mortgage brokers did before the passage of the farm loan act. It was necessary, therefore, in those sections most needing credit for the small farmer, that farmers should take the initiative and bring their pressure to bear through national farm loan associations (which are in reality small local land banks chartered by the Government), but as the Government made this initial subscription of capital obligatory upon the borrower, the Government was morally bound to protect this forced contribution of small capital from the risk of large loans.

That was one reason for fixing the maximum loan of the Federal land banks at $10,000. Another reason for this limitation was to prevent the Federal land banks—whose officers are human and actuated by human ambitions—yielding to the very natural temptation to seek first the big loans and to leave the small loans to the last, with the possible danger of ultimately depriving the small farmer of the benefits of the act. At the same time private capital, through the joint-stock land banks, was given the opportunity and invited to provide capital for loans on the amortization plan for the larger

farm units, the risk there assumed being entirely voluntary. How fully and well the joint-stock land banks have responded and how they have conducted the business in the spirit of the act is set forth in a statement of the facts which I will file and mark "Exhibit H."

Clearly there is a field for both banks, and it is in the public interest that both agencies be continued. Senate bill 3109, however, sharply draws the distinction between direct Government control and individual initiative under Government supervision, and favors the former by destroying the latter.

However, the difference between the class of service and methods of operation of these two types of banks does not constitute a difference which entitles either type to particular consideration at the hands of the Government. Both types are created to stimulate agriculture. Both types are to be privately owned. The joint-stock banks are now wholly privately owned, and within three years the Federal land banks—according to the statement of Mr. Corey made to the House Committee on Banking and Currency when speaking for all the Federal banks—will be wholly privately owned.

The word cooperation is one to conjure with, but we must not be misled by its use in this connection. No one will contend that the Congress of the United States intended to declare by the passage of the farm-loan act—or that it should now declare by amendment to the act—that farmers must become members of a cooperative association before they are to be permitted to borrow money at a low rate of interest. Neither will anyone contend that the mere act of joining a cooperative or mutual society entitles a farmer to a low rate of interest made possible by the issuance of tax-exempt bonds.

The fact is that the tax-exempt farm-loan bond is provided as an aid to agriculture as an industry essential to the life of the Nation, and not as an aid to any class of farmers, either rich or poor, either struggling or independent. The right to issue tax-exempt farm-loan bonds is predicated upon a public service for the general welfare.

The argument might be offered that the heavy borrowers can get money anytime and anywhere. But such is not a fair statement of the case. True, they can get money many times if they are willing to pay a high rate and an exorbitant commission, but there have been times when they could not get the money at any price. Nevertheless, to fail to provide plenty of money on the most reasonable terms and at the lowest possible rates for these big operators would be to fail to stimulate agriculture in the very quarter where the greatest increase could be secured. Not to finance the energetic, successful farmer while at the same time providing credit facilities for the less successful would be to penalize the big producer for being energetic and efficient.

Now, upon the subject of the difference in cost to the farmer: Evidently it was the intention of those who framed the Federal farm-loan act to place both kinds of banks on the same footing as to profits and as to the eventual cost of loans to borrowers. And we shall show that joint-stock land banks are carrying capital from the investor to the borrower for as small a charge as any other agency in existence and for a much smaller charge than was the practice before the Government undertook the regulation of farm loans.

No commission is paid by the borrower to either Federal land banks or joint-stock land banks. The farm-loan act makes it unlawful for either bank to charge a borrower a commission.

But there is a difference as to the rate of interest charged by the two types of banks, the Federal bank lending at 5½ per cent the money it secures on bonds bearing 4½ per cent and the joint-stock bank lending at 6 per cent the money it secures on bonds bearing 5 per cent interest.

Before proceeding further with the discussion of the difference of cost to the borrowers of the two types of banks, it is pertinent to inquire as to the reason for the difference in the rate the bonds of the two banks bear.

First. Bonds of the Federal land banks are advertised and sold as an offering of the United States Treasury, which while not technically true is true as to practice and which does carry the impression to the public that the Government stands behind them to a much greater extent than in the case of joint-stock bank bonds. The bonds of the joint-stock land bank are no less "instrumentalities of the Government" than those of the Federal bank bonds. The underlying security in both cases is Government inspected and Government appraised, while both agencies (the Federal banks and the joint-stock banks) are Government supervised. Yet with no other advantage than that found in the manner of their being marketed and the accompanying advertising, the Federal bank bonds have received such a decided preference from the investing public that joint-stock banks in order to market their bonds in competition with bonds of Federal banks and other tax-free securities have been forced to issue them bearing interest at 5 per cent.

This should make a difference of one-half of 1 per cent in the cost to the borrowers of the two types of banks, yet the results show that the difference is far from one-half of 1 per cent in favor of the Federal bank. Results show, when everything is considered and all items of expense accounted for, that even with the advantage of a 4½ per cent bond, the cost to the borrower of a Federal bank is very nearly if not quite equal to the cost to the borrower of the joint-stock bank.

Each farmer who borrows of a Federal land bank is required to buy stock in the Federal land bank equal to 5 per cent of his loan. Thus he loses the use of just that much money. In other words, if he borrows $1,000 he has the use of only $950 though he signs a note for $1,000 and pays interest on $1,000. Also this stock carries double liability.

Farmers who borrow of joint-stock land banks are not required and are not asked to buy stock in these banks, and therefore assume no responsibility. The farmer who borrows $1,000 of a joint-stock land bank has the use of $1,000.

Farmers who borrow of the Federal land banks must join a farm-loan association and must bear their proportionate share of the expenses of the association, and they may be assessed for these expenses.

For those who borrow of joint-stock land banks, all expense is included in the interest charge, and therefore is borne by the banks.

True, the stock in a Federal land bank which a borrower buys may, and does in some instances, pay a dividend, but the dividend is paid to the farm-loan association and not directly to the borrower. First,

the Federal land bank must set aside 25 per cent of its earnings for reserve. In addition to this, the Federal land bank may set aside out of its earnings any amount for expenses before paying a dividend to the farm-loan association. Then the association is required to set aside 25 per cent of this dividend for reserve. Next, the association may and does use the dividends to pay the expenses of the organization. What is left, the association may pay to the borrower.

These statements are not made to the disparagement of the cooperative plan and the Federal land banks. Neither are they made in a contentious spirit. They are made in order to show the difference in the methods of administration and to show that the ultimate cost to the borrower is quite equal after all, though the methods of distributing the cost are quite different.

However, there is another factor aside from that of cost to borrower which to a large extent is controlling in distributing the farmers' business between the two types of banks, and that factor is the inherent difference in the methods of operation. One class of farmers need the cooperative plan in order that they may pool their credit, so to speak, and thus secure jointly or cooperatively loans which they could not secure as individuals. Another class of farmers are individualists and prefer to deal directly with the bank making their loans and preferring not to be obliged to guarantee the loans of others. If the joint-stock land banks have any advantage in any particular over the Federal land banks, that advantage lies in the opportunity afforded to deal directly with the borrower.

It is interesting to note what are the results of having the two types of banks operate in the same field. The following shows the actual competition in the loans examined for all the joint-stock land banks by the Farm Loan Board to November 13, 1919:

Loans of $10,000 or more: Number, 2,278, for $38,911,464; average, $17,000.

Loans of less than $10,000: Number, 3,869, for $16,853,720; average, $4,300.

Total number, 66,147, for $55,765,184; average, $9,000.

Percentage of loans under $10,000, 30 per cent plus.

Total loans by Federal land banks October 1, 1919: Number, 103,672, for $271,317,000; average loan, $2,600 plus.

Now we come to the interest of the money lender. Approximately $9,000,000 have been invested in the stock of joint-stock land banks. These investors entered this particular field to conduct a farm-loan business under the supervision of the Government, not because it offered a larger return—for the return is much smaller than in the unregulated farm-loan field—but because they assumed that the time had arrived when the Government was in earnest and contemplated providing the financial machinery which would make it possible for the farmer to get adequate and essential money at low rates, and because they assumed also that the provisions contained in the farm-loan act were permanent in their nature. In a word, they assumed that the day of the farm-mortgage broker, with his high rates and excessive commissions, was ended. Accordingly they felt that as they would be compelled, sooner or later, either to retire from the field or to submit to regulation, it was well to enter upon the new order at once and to get their business adjusted at the earliest moment to the new and permanent conditions. These investors recognized

that if they did not enter the farm-loan system as joint-stock land banks, those who did organize as joint-stock land banks would run the old mortgage broker out of business. They could have continued to operate as farm-mortgage bankers if their only competition had been the Federal land bank with its new, mutual, or cooperative credit plan; but they knew they could not continue at the old high rates of interest and with the old exorbitant commissions against the keener and more active competition of the privately owned joint-stock land banks.

Now, with regard to the profits. Joint-stock land banks have no source of income other than from first-mortgage loans, from Government securities, and from premiums on the sale of their bonds. They can not charge the borrower a rate of interest in excess of 1 per cent above the rate of their bonds bear. That limits the banks to a margin of 1 per cent. Under the law, joint-stock land banks can not issue bonds in excess of fifteen times their capital. Thus, we see that from the making of mortgage loans, joint-stock land banks can not legally derive a gross income in excess of 21 per cent (all expense of operation must be paid out of this) on its invested capital; that is, 6 per cent on the capital stock itself and 1 per cent on each of the 15 turnovers of the capital through the sisuance and sale of bonds. And this amount of gross income presupposes the continuous working of every dollar of capital all the time, an impossibility without question. The income from premiums on bonds sold is uncertain, when there is any premium at all. Of the highest premium thus far received, 75 per cent was absorbed in the cost of marketing the bonds and about 12½ per cent was absorbed in printing and other costs of issue.

Out of its income, joint-stock banks must pay their operating expenses, including taxes (for, contrary to popular opinion, these banks are subject to certain taxes—State taxes on their capital stock, income taxes, and revenue taxes on the notes on which they borrow money) and must build up the reserves required by law, before they can pay any dividends whatsoever.

You publish with your report No. 317 a list of 27 joint stock land banks which purports to show this excess earnings to date, but there is no analysis shown of these earnings, and consequently, if it was all the information before your committee, you could not possibly draw the correct conclusions.

Take the first bank on your list, that of the Iowa Joint Stock Land Bank of Sioux City, Iowa, which also happens to show the largest percentage of excess earnings to capital invested, nearly 23 per cent. That bank was the first chartered, has operated about 3 years, has neither paid salaries to its officers, nor charged all its expenses against income, and yet under these self-imposed conditions their earnings average only 8 4-10 per cent per annum. That bank has very wisely elected first of all to build up a surplus to protect its bondholders and safeguard its stockholders, and yet this business prudence results in a charge of profiteering against not only that bank, but all others. In this connection it is well to call your attention to the fact that there is now a very dangerous boom in farm land values in this country. No one knows how far it will go, but every one knows that it must end, with a recession in values more or less violent. Would it not be better for the entire system if there was less talk

of increasing dividends and decreasing interest rates by the Federal land banks, and of excess profits for the joint stock land banks, and more thought about the necessity for both banks to strengthen their reserves against the inevitable day of lower farm land values and more normal conditions.

Your committee does not make the direct charge of profiteering, but only says the data submitted to you so indicates. However, the charge has been and is being so persistently made by others that Members of Congress and others have come to believe the earnings of these banks are so large, they can continue in business though their tax exemptions on bonds be removed. In this connection I refer your committee to a statement already filed of income and disbursements as shown by records of Farm Loan Board and marked "Exhibit A-1."

Now, upon the subject of effect upon Government revenues. Though we are now to discuss revenues, let us not forget the purpose of the act. An adequate food supply is the first and greatest concern of every nation. Not to look to the future and provide for and insure the continued production of food in abundance would be the greatest improvidence.

The right to issue tax exempt farm mortgage bonds is predicated upon a service to the general public.

The Government's right to exempt such bonds from taxation can be exercised only in the interest of the general welfare. It is not as a subsidy to a particular class of farmers; it is as an aid to agriculture, as a stimulus to production, that these bonds are exempted from taxation.

All will agree that the long-term amortized loan could not be made available to the farmer excepting by the issue of bonds, and prevailing conditions in the money market show that a low rate of interest on these bonds can be assured only by exempting the bonds from taxation. If any great amount of farm loan bonds is to be sold, the sales must be effected in the market under conditions which will appeal to the investor. Farm-loan bonds, therefore, have to meet the competition of municipal bonds and other tax-exempt securities, of which New York City alone has a funded debt of $1,450,000,000 now totally exempt from taxes. If farm-loan bonds were to be subject to taxation, then they would have to bear a higher rate of interest, and the farmers would have to pay a correspondingly higher rate of interest. For this reason in particular, it was decided by the Congress that farm-loan bonds should be taxexempt.

Farm loan bonds make a liquid security of the farm mortgage. Heretofore the size or amount of a farm mortgage made it an unwieldy thing to handle in the market. The fact that the security could not be examined readily by other parties than those originally making the loan also interfered with its sale. But when the Federal farm loan act was passed and all farm mortgages were appraised by representatives of the Farm Loan Board, and values thus determined, safeguarded, and, in effect, guaranteed, it was possible to issue against these farm mortgages bonds of varying denominations to suit the convenience of investors. So that now, instead of an investor being asked to buy a $5,000 farm mortgage, and having to wait until he had $5,000 before he could make the purchase, under the new system he is asked to buy a $500 farm mortgage bond, or

possibly a $100 farm mortgage bond, and he can buy it whenever he has the $100 or the $500. And all this makes of farm mortgages, for the first time in the history of this country, liquid securities that pass current as do the securities of municipal and other corporations.

By this plan vast sums of money have been released for agricultural uses which never could have been made available had it not been for the fact that farm securities are now liquid and can be handled conveniently and with dispatch by banks and other investors. The effect of this has been to secure the farmer his money at greatly reduced rates of interest. The reduction in these rates already has been shown. The purpose of the farm loan act is being served. Capital is being provided for agricultural development. Rates of interest have been reduced. The farmer is getting his money cheaper and at a relatively lower rate of interest than ever before.

However, the amendment proposed in Senate bill 3109 does not protect revenues. If it were to be granted, for the sake of argument, that the Government's need for revenues outweighs the Nation's need for increased agricultural production, it would still be impossible for the Government to get any relief out of the general situation with regard to amendments to the farm loan act now pending. While the Senate is debating the advisability of reducing the amount of tax-exempt securities by denying the privilege to joint-stock land-bank bonds, the House is debating a proposal to increase the limit as to the amount Federal land banks may lend to a single individual, to the end that the Federal land banks may take over the loan business of the joint-stock banks and fill completely the field from which the joint-stock banks will have been excluded. So far as protecting the Government's revenues is concerned, of what avail is it to repeal the tax-exempt provision as it applies to joint-stock land banks if the provision is permitted to remain as applied to Federal land banks, and all permission is granted and all provisions made for extending the operations of the Federal banks so that the loans formerly made by joint-stock land banks are to be made in the future by the Federal banks? What effect upon revenue? None, whatever. The same volume of tax-exempt bonds will be on the market as before.

The fact is that "effect upon revenues" is the excuse rather than the reason for the attack upon the joint-stock land banks; and after due consideration, such a clumsy proposal is not likely to deceive either the Senate or the House of Representatives.

In Report No. 317, December 8, 1919, you state as the first reason for your recommendation the following:

> The accumulation of large aggregations of capital, wholly exempt from any and all forms of taxation, is wrong in principle and should be discontinued. The large taxpayers will gradually absorb these bonds which will contribute nothing to the support of the Government.

As the kind and volume of tax-free securities constantly change, it is difficult to obtain statistics exact for any given date, but the following estimate of the aggregate tax-free securities of all kinds now outstanding is sufficiently accurate for comparison:

$7,000,000,000 of municipal county and State bonds and about $800,000,000 more are issued yearly; $1,000,000,000 of special-assess-

ment bonds of cities; $3,000,000,000 of mutual savings bank securities; $1,700,000,000 of building and loan securities; $4,000,000,000 of first and last Liberty loan bonds; $87,000,000 of Federal reserve bank stock; $300,000,000 Farm land bonds; $17,000,000,000 grand total of tax-free securities.

From the above, it appears that Farm loan bonds, issued by both Federal and joint-stock land banks constitute less than 2 per cent of the total, while the $46,255,000 of joint-stock land-bank bonds mentioned in your report is less than one-third of 1 per cent. This naturally raises the query that conceding the principle of tax exemption to be wrong, why apply the remedy only where the wrong is actually the least and relatively insignificant.

You state as the second reason for your recommendation of this bill the following:

> The excess earnings of some of these banks indicate that they are making large profits, and it has been represented to your committee that they are likely to encroach upon the legitimate field now occupied by the farm-loan banks unless their activities are restricted.

The matter of earnings and the matter of the difference of service and the field occupied by each type of bank already has been discussed. However, two complaints have been lodged against the system, as it pertains to the activities of the joint-stock banks, which are well founded, but could be easily remedied by amendments to the law.

The statement is made there is no limit in the law to the amount which a joint-stock land bank may lend to a single individual. This is true as to the law. However, it is not true as to the actual condition. A ruling of the Farm Loan Board has placed a limit of $50,000 upon the amount which may be loaned to a single individual by a joint-stock bank. So long as the Farm Loan Board, which made this ruling, is of the same opinion, the ruling is as effective as a law itself. However, to remove all question and criticism on this point and to guard against a possible change in the ruling of the Farm Loan Board, the Congress could write this limitation into the farm loan act itself.

The further statement is made that there is nothing in the law to limit the purposes for which a joint-stock bank may lend money. Again this is true as to the law. But again it is not true as to the actual condition. The Farm Loan Board have given a ruling also that all loans made by joint-stock banks shall be purely for agricultural purposes. The joint-stock bank is charged with the responsibility of seeing that the money it loans is not used by the borrower for any other than agricultural purposes named in the application for the loan. This ruling, also, has all the force of law. But to remove all doubt and criticism on this point, the Congress should write into the farm loan act itself the purposes for which a joint-stock bank may lend money.

No joint-stock bank now organized will interpose the slightest objection to such amendments. These banks are sincerely endeavoring to perform an honest service for the farmer, for agriculture as an industry, and for that great public which is dependent upon agriculture for its food supply. These banks will not object to a more exact and clearer definition of their powers, duties, and privileges in these particulars.

In conclusion, opposition to the joint-stock land banks and the most formidable demand for amendments to the farm loan act come not from the farmer but from those interests which have been charging exhorbitant commissions. Naturally, when these interests see their profits diminishing and see a heretofore highly profitable business dwindling, they seek to crush the institutions responsible for this loss. The opposition has been greater toward the joint-stock banks than toward the Federal banks because the joint-stock banks are lending money at 6 per cent and without commissions, in a field where the old-style mortgage broker for years made loans at higher rates and grew fat on the commissions he could charge and collect.

Here then is a complete answer to all the opposition:

The American farmer is now getting his money at a lower rate of interest than he otherwise would get it, and he is getting it now at a relatively lower rate than at any other time in this generation; also getting it on more convenient terms.

Bankers generally agree that if the old system were still in force without this competition interest rates would be at least 1 per cent higher than they now are. The source and character of the opposition to the law tends to prove this.

Thus we see that the farm loan act is accomplishing the purposes enumerated in its title; and thus we see also that the joint-stock land banks are functioning as they were intended to do.

Money is beginning to flow to agriculture in adequate amounts at reasonable rates and on terms adapted to the nature of agricultural operations and to the periods of agricultural returns. Money is beginning to flow not merely to small producers but to all producers in the agricultural field. Production has been increased and is being still further increased. The Nation is to have food, and have it in such abundance that it can supply in part the need of the starving nations of Europe.

All this is being accomplished through the farm loan act which is based upon the assumption that exempting farm mortgage bonds from taxation is in the interest of the general welfare and therefore a wise public policy.

It is pertinent for the Congress to inquire as to the direct benefits agriculture receives from the tax exemption. We have submitted evidence to show that interest rates have been greatly reduced in every hight interest section of the country and to show further that interest rates on farm mortgages are lower in all parts of the country than they would have been had this act never have been passed. We have submitted evidence also to show that joint-stock land banks are performing a very real service and performing it for a reasonable return to these banks. We have submitted evidence to show that joint-stock land banks, operating as regulated agencies, are carrying capital from the investors to the borrower, at a lower charge for the service than any other agency.

Therefore, we respectfully pray that your committee withdraw its recommendation and have Senate bill 3108 recommitted to you. If the bill is to have further consideration the joint-stock land banks will be glad to confer further with your committee and in a fair and sympathetic spirit give to the committee whatever aid they may be able to give.

EXHIBIT A-2.

ONLY 9½ PER CENT INSTEAD OF 30½ PER CENT.

TREASURY DEPARTMENT,
FEDERAL FARM LOAN BUREAU,
Washington, January 8, 1920.

Memorandum for the Farm Loan Board.

With reference to memorandum prepared for Capt. Smith, dated June 18, 1919, showing earnings of the First Joint Stock Land Bank of Chicago as at the close of business May 31, 1919, the following information is respectfully submitted:

On page 1 of the above-mentioned memorandum the average amount of capital stock invested in this bank for the period from organization to May 31, 1919, was shown to be $299,148.15. This amount is correct, as shown by the records of this bureau, such records being compiled from certificates of the First Joint Stock Land Bank of Chicago. Since preparing the above-mentioned memorandum, however, it has been called to my attention that these certificates were not made at the time the funds were actually collected on account of this stock subscription, but at some subsequent date prior to the issuance of bonds against such stock, and that the average capital investment on May 31, 1919, was actually $354,340.

Earnings of this institution at that time were shown to be $61,208.60, which would represent 17.3 per cent on the average investment for the period from organization to May 31, 1919 (22 months), or about 9½ per cent per annum on average capital invested.

Respectfully submitted.

H. HISE,
Chief Land Bank Examiner.

EXHIBIT B.

AUGUST 26, 1919.

The FIRST JOINT STOCK LAND BANK,
Chicago, Ill.

DEAR SIRS: We beg to acknowledge the receipt of your telegram of August 25, reading as follows:

"Reported here more than 120 applications on file with you where applicants have paid in one-half of required capital and complied with all other requirements. Please advise by wire actual number."

To which we replied as follows:

"Report unwarranted; 24 joint-stock land banks have been chartered and applications for only 2 pending."

Yours, very truly,

W. W. FLANNAGAN,
Secretary, Farm Loan Board.

EXHIBIT C.

FARM LOAN BOARD RULINGS.

GENTLEMEN: In connection with the operation of your institution, the board desires to call attention to the following:

Application for loan.—Paragraph 8 of section 12 specifically enjoins upon each applicant to use form of application prescribed by the board, and especially requires that such applicant shall state object to which proceeds of said loan are to be applied.

In this connection it is suggested that you procure from the Federal land bank of your district form of application in use in that bank, and adapt it to your needs, being sure that the purposes of the loan are quite fully set forth.

Amount of the loan.—The act exempts joint stock land banks from the limitations imposed upon the Federal land banks, as to the amount of loan, and imposes no limitations. The board has, however, under its general supervisory powers, and in connection with its duty to examine all loans before they are used as a basis for bond issue, felt impelled to suggest that loans will not be approved in excess of 15 per cent of the capital of the joint-stock land bank, and that no loan to a single borrower will be approved in excess of $50,000.

Purpose of the loan.—Joint-stock land banks are also exempted from the specific limitation imposed upon Federal land banks, in reference to the purpose for which loans may be made.

The general purposes of the act, however, are so clearly defined in the title, "to provide capital for agricultural development," and this purpose is so generally understood and accepted that the board feels it is inconsistent with the purposes of the act and sound public policy that loans should be made by joint stock land banks, except for the purposes enumerated in the act, or other purposes related to agricultural development.

You are, therefore, requested to confine your loans to such purposes, and advise that the board can not approve loans which are made for the purpose of speculation or for other purposes entirely foreign to agricultural production.

The Federal Farm Loan System has two distinct branches: The so-called Federal land banks, which are mutual in their nature, and the joint stock land banks, which are private enterprises. It is the desire of the board to administer both branches of the system with absolute impartiality and to promote a spirit of friendly cooperation between the two, to the end that the agricultural interests of the country may receive the best possible service.

It is proper that the Federal land banks and joint stock land banks should advertise their business and facilities, but it is highly desirable that such advertisements should be so framed as to avoid friction between the two branches of the system. Loans made by either branch of the system are in no sense Government loans, or made by the Government, and the use of any term which suggests that they are is highly objectionable and must be avoided.

Commissions.—It is proper for a joint-stock land bank to pay a reasonable commission to its agents who procure applications for it, but it is a violation of the spirit and the letter of the law for joint-stock land banks or their agents to charge a borrower any commission, fee, or bonus, where the loan is made at the maximum rate of 6 per cent, except the authorized charge for appraisal and determination of title, which must not exceed the actual cost of such services.

Joint-stock land banks will be held by the board responsible for a rigid observance of this provision of the law.

The board will be pleased at all times to receive communications from you and to counsel with you as to any matters about which you may be in doubt.

Respectfully, yours,

W. W. FLANNAGAN,
Secretary, Farm Loan Board.

EXHIBIT E.

$54,000,000 FEDERAL LAND BANK 4½ PER CENT FARM LOAN BONDS.

Issued under the direction and control of the Federal Farm Loan Board, a bureau of the Treasury Department of the United States; dated May 1, 1919; due May 1, 1939.

Redeemable at par and interest on any interest date after five years from date of issue. Interest May 1 and November 1. Coupons payable at any Federal land bank or Federal reserve bank. Principal payable at bank of issue. Coupon and registered bonds (interchangeable) in denominations of $1,000, $500, $100, $50, and $25.

EXEMPT FROM FEDERAL, STATE, MUNICIPAL, AND LOCAL TAXATION.

Federal land bank bonds are declared by Congress to be instrumentalities of the Government of the United States, and as such, exempt from Federal, State, municipal, and local taxation.

These bonds, therefore, have as complete exemption from taxation as the first Liberty loan 3½ per cent bonds.

The 12 Federal land banks were organized by the United States Government with an original $9,000,000 capital stock, which has since been increased

through operations of the system to over $19,500,000. The Federal land banks were created to meet the agricultural needs of the United States, as the Federal reserve banks were designed to meet the mercantile and manufacturing needs.

In order to avoid confusion it should be noted that the bonds of the Federal land banks are issued by banks created by the United States Government in which banks the Government owns a substantial amount of the stock. All 12 Federal land banks are liable for the ultimate payment of all bonds issued by each and every Federal land bank.

Joint stock land banks are organized under the same act of Congress but are owned by private interests, the United States Government holding none of the stock, and there is no liability on the part of one joint stock land bank for the obligations of the others.

Federal land bank bonds are secured by deposit of an equal amount of United States Government bonds or first mortgages on farm lands cultivated by the owner, which mortgages are appraised and guaranteed by the local national farm loan association of which the borrower is a member and stockholder. Each stockholder is liable for twice the par value of his stock. Before the loan is made the property must be examined and a separate appraisal and written report made by the appraiser or appraisers appointed by the Federal Farm Loan Board. This appraisal must be finally confirmed by the directors of the Federal land bank of the district, and before a bond issue is allowed the original application and appraiser's report on which each loan is based must be examined and passed upon by the Securities Department of the Federal Farm Loan Board in Washington. No mortgage loan may be made in excess of $10,000, nor may it exceed one-half the appraised value of the land mortgaged and 20 per cent of the appraised value of permanent insured improvements thereon. The mortgagor contracts to reduce the amount of his loan by annual or semiannual payments of principal with payments of interest, thereby constantly increasing the margin of security.

The bonds are acceptable by the United States Treasury at par as security for Government deposits, including postal savings funds. They are lawful investments for all fiduciary and trust funds under the jurisdiction and control of the Federal Government. They are eligible under the laws of many of the States for investment of all public and private funds, and are eligible for investment by savings banks in the following States: Arkansas, California, Colorado, Delaware, Florida, Georgia, Idaho, Indiana, Kentucky, Louisiana, Maine, Maryland, Minnesota, Massachusetts, Mississippi, Nebraska, New Hampshire, New Jersey, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming.

The Attorney General of the United States on behalf of the Government, and the Hon. Charles E. Hughes on our behalf, have approved the constitutionality of the act and the validity of the provisions exempting the bonds from taxation.

Price. 100¼ and interest, netting over 4.38 per cent to the redeemable date (1924) and 4½ per cent thereafter up to redemption or maturity.

ALEX. BROWN & SONS.
BROWN BROS. & CO.
HARRIS, FORBES & CO.
LEE, HIGGINSON & CO.
THE NATIONAL CITY CO.

The statements contained herein, while not guaranteed, are based upon information and advice which we believe to be accurate and reliable.

OPINION OF THE HON. CHARLES E. HUGHES.

At our request, former Supreme Court Justice Charles E. Hughes has rendered us an opinion as to the constitutionality of the Federal farm loan act of July 17, 1916, and particularly with respect to the validity of the farm loan bonds and the provisions exempting these bonds and the income derived therefrom, from taxation.

Copies of Judge Hughes's opinion in full may be obtained upon application. We quote as follows the concluding paragraph of the opinion:

"My conclusion is that the farm loan bonds to be issued by the Federal land banks organized and controlled as provided in the Federal farm loan act will be, when duly issued and paid for, valid securities, constituting as declared by Congress instrumentalities of the Government of the United States, and that they and the income derived therefrom will be exempt, as provided in the act, from Federal, State, municipal, and local taxation; and, further, that, with respect to bonds duly issued and paid for under this exemption, it will constitute a continuing exemption which can not be withdrawn by subsequent legislation."

We also quote from the opinion the following paragraph with respect to the relation of the Government to these bonds, which is considered in the course of the review of the grounds sustaining their validity:

"Taking into consideration the facts which have been stated with respect to the organization and control of the Federal land banks, I am of the opinion that the farm loan bonds which are about to be issued by these banks under the authority and direction of the Federal Farm Loan Board by virtue of the powers conferred by Congress, and which have been expressly declared by Congress to be instrumentalities of the Federal Government, must be regarded as obligations having the support of the good faith and credit of the United States. And while such obligations, because of the nature of sovereignty, confer no right of action against the United States without its consent, being only binding on the conscience of the sovereign, and hence in this aspect invite reliance on the sense of justice of Congress, still the actual relation of the Government to the issue of these bonds affords additional ground for sustaining their validity."

EXHIBIT G.

THE MONTANA JOINT STOCK LAND BANK OF HELENA, MONT.,
December 3, 1919.

W. W. POWELL,
Secretary American Association of Joint Stock Land Banks,
Chicago, Ill.

DEAR MR. POWELL: Your request by telegram for the conditions imposed by the Union Central Life Insurance Co. upon borrowers reminds me that perhaps you are getting up a circular along the line of excessive charges by loan agencies, and I am therefore reminded to send you such information as I have at hand at this time, and you will find same as follows:

1. Mr. H. M. Mummy, whose address is Coburg, Mont. (which is in the northern part of the State), writes under date of November 15, 1919:

"I am paying 10 per cent per annum for a five-year loan, without any prepayment options, and, in addition to the rate of interest named, I paid a small bonus."

2. Mr. Luke Mathis, whose post-office box number is 185, and whose address is Chinook, Mont., in the northern part of the State, writes:

"I have made a loan with the Federal land banks at 5½ per cent, amounting to $7,800, and consisting of three separate loans; the charges made to cover cost of the local loan committee expense and the expense of the Federal appraisers' transportation while viewing the land and all was only $49 commission. All of the mortgage companies I ever had any dealings with charged 6 per cent interest and 4 per cent per annum commission during the life of the loan, which in my case on a five-year loan would have been $1,560 against $49."

3. A county official, resident in northern Montana, says:

"I am familiar with at least 15 cases where loans to farmers have been made this year, and on every one of them the borrowers have had to pay a good commission in addition to interest of 10 per cent per annum for five years' life of the loan."

4. A correspondent at Conrad, Mont., sends a copy of letter received from a Montana banker in which occurs the following language in reference to an application covering several loans of $11,000 to be made for five years:

"The rate on the first-mortgage loan to be 5½ per cent, the principal mortgage to be drawn at 6 per cent and the commission mortgage at 2½ per cent per annum. The prepayment privilege applies to the 6 per cent note only, and the commission mortgage would have to be paid in full, no matter when the loan is taken up. We prefer not to give the prepayment privilege, but if you insist upon it we will give that. The rate on the second-mortgage loan of $3,000 is 10 per cent."

5. A letter from a county official in Rosebud County, Mont., says:

"I find that most of the farm loans are made in this county with rates of interest running at 9 per cent and 10 per cent."

6. A county official in Sheridan County, in northeastern Montana, incloses a list of 125 farmers with information that every one of them are "paying 8 per cent or more than 8 per cent interest on their farm loans"; that "usually there are two sets of interest notes made out, one for 6 or 7 per cent of the loan and the other for 2 or 3 per cent of the loan, and sometimes even 4 per cent." The list of names referred to is available, and any of the borrowers can be written to for an explanation of the excessive terms of their loan.

7. From a county official in Richland County, in eastern Montana, comes the following:

"Our farmers are paying 8, 9, and 10 per cent interest, with commissions and bonus on top of that; the conditions are rapidly getting desperate; our farmers can stand things about so long, but they are about in the mood to get together for their own benefit."

8. A letter from a county official in the central Montana county of Lewis and Clark says:

"The prevailing rate of interest on farm mortgages in this county is 10 per cent, and I doubt if any loaning companies or banks are making farm loans at any lower rate than that."

9. A letter from a county official in the eastern Montana county of Wibaux advises:

"Very few farmers if any in this county are getting money on farm mortgage loans made for five years at less than 9 or 10 per cent, with commissions and bonus added."

10. A letter from a county official of Sanders County, in western Montana, says:

"In November of 1919 I examined the records of this county regarding rates of interest stipulated on farm mortgages, and while there were some mortgages written at 8 per cent, more of them were written at 10 per cent than any other rate. In addition, commissions were charged but I have no way of knowing the amount of same; for instance, a mortgage of $2,150 is recorded as being given by William S. Christie to a bank in this county, dated October 24, 1919, bearing interest at 10 per cent; there is a mortgage of $900 given by U. E. Smith and Lena L. Smith, his wife, dated October 28, 1919, and bearing interest at 10 per cent; there is a mortgage of $1,600 dated October 20, 1919, given by John H. Brass and his wife, Lyda Brass, carrying interest at 8 per cent, but as I suggested above, practically all of the loans in this county are recorded at 10 per cent."

From all of this, Mr. Powell, you will be able to draw a very powerful lesson warranting a continuance of our Government, a system by which these farmers now paying the excessive rate of 8, 9, and 10 per cent are able to obtain money at low rates.

Will you kindly show this letter to Mr. Houston for his reading?

Cordially,

GEORGE L. RAMSEY, *President.*

THE MONTANA JOINT-STOCK LAND BANK OF HELENA, MONT.,
November 26, 1919.

GUY HUSTON,
President First Joint-Stock Land Bank, Chicago, Ill.

MY DEAR GUY: I now inclose herewith copy of the condition in the applications of the Union Central Life Insurance Co. The following is an exact copy of a part of an application for a farm loan made to H. B. Smith, the Montana representative of the Union Central Life, the application being dated February 14, 1917, and recorded in book 8 of Miscellaneous Records in Fergus County, Mont., and being signed by H. H. Bean as applicant:

"I hereby make application to you for a loan of $5,000 on 20-year amortization plan, payable annually at $10.53 per $100, with the privilege of paying any note at any time by discounting it at the rate of 7 per cent interest, compounded annually. I hereby appoint you my agent and attorney in fact to negotiate and procure said loan hereby applied for, and agree to pay you as compensation for such services a commission of $10 per $1,000 per year for the term of said loan, payable on the 1st day of March each year. * * * If for any cause I am unable or unwilling to carry out the conditions of this contract, I agree to pay all expenses which have been incurred and 5 per cent of the amount of said loan."

From a general rough figuring of this computation it would occur to me that the borrower on a $5,000 loan would in 20 years pay $10,530 plus $1,000 in the commission of $10 per $1,000 per year, making the loan bear a total interest and commission cost of $6,530; and as the loan is paid serially over a period of 20 years, the borrower gets the use of but $2,500 average for the 20 years, so that the money costs him, as I would figure it, 13.06 per cent.

Won't you kindly figure it out and see what result you arrive at?

Cordially,

GEORGE L. RAMSEY, *President.*

AN IOWA COMMISSION MORTGAGE.

Following is a correct copy of the fourth section of a certified copy of a mortgage for $13,500 given by Peter Nelson and his wife, Anna, to N. H. Nelson, the said mortgage being recorded in Book 266, page 357, of the records in the office of the recorders of Marshall County, Iowa, and the purpose of said mortgage being to secure the payment of $13,500 as commission for securing loans amounting to $56,000 and recited in the mortgage as follows:

"Fourth. It is hereby understood and agreed that this mortgage is made subject to two mortgages this day executed by us on the above-described premises, one for $36,000 to the Aetna Life Insurance Co., and the other to J. D. Newcomer Co. in the sum of $20,000. It is further understood between the parties hereto that the consideration for this mortgage and the note which it secures consists of the securing for first party of the two mortgages or loans above described, and while it is understood that there is an option on the $36,000 mortgage after five years and on the $20,000 mortgage after one year, it is expressly stipulated and agreed that a payment of all or any part of those two mortgages or either of them before maturity shall not affect the amount promised to be paid hereunder nor in any way decrease or satisfy any part of second party's claim under this mortgage and the note which is secured hereby. The holder of this mortgage may pay any past due interest on either of the two prior mortgages and this mortgage shall stand as security for the repayment of same with interest thereon at 8 per cent per annum from the time same is paid."

JANUARY 19, 1920.

STATE OF NEBRASKA,
Lancaster County.

William H. Mackley, being first duly sworn, deposes and says that he is the owner of all of section 4 and north half of section 9, township 14, range 25 west, Custer County, Nebr.; that he has made application for a loan of $30,000 on said land to the Lincoln Joint Stock Land Bank, of Lincoln, Nebr., for a term of 32 years, at 6 per cent semiannual interest, on which loan he is to pay an initial fee of $20, to pay for the cost of examining the land and on which loan he is to pay an additional fee, amounting to the cost of examining the title to said premises.

Affiant further saith, about seven years ago he negotiated a $7,000 loan on said premises from a money loaner of Omaha, Nebr., who placed the loan with a loan agency of Omaha, Nebr.; that said loan drew interest at the rate of 6 per cent, and affiant paid in the neighborhood of $1,000 as commission on said loan.

Affiant further saith, about two years ago, when the said $7,000 became due, he paid a renewal fee of $175 for the purpose of renewing said loan for a term of five years.

Affiant further saith he undertook to procure the above loan of $30,000 from the same parties of whom he procured the loan of $7,000 and that the best rate that he was able to get was 10-year loan at 5½ per cent interest and a cash commission of $2,250, to be deducted from the proceeds of the loan.

Affiant further saith that the above statement is made for the purpose of showing a difference in the costs in a loan from the Lincoln Joint-Stock Land Bank and the costs of a straight loan from private parties.

And further affiant saith not.

W. H. MACKLEY.

Subscribed in my presence and sworn to before me this 19th day of January, 1920.

W. H. SUTTON, *Notary Public.*

COUNCIL BLUFFS, IOWA, *January 16, 1920.*

LINCOLN TRUST CO.,
Lincoln, Nebr.

GENTLEMEN: Replying to your letter of the 14th by Mr. Sutton regarding the loan of $24,000 in Clarke County, we have the following to report:

Annis & Rohling, E. H. Lougee (Inc.), J. P. Hess Co., H. W. Binder & Co., J. G. Wadsworth & Co.. and the Farmers' Mortgage Co. say they can not handle a loan of this kind now.

Joseph Michener & Co. will make the loan at 6 per cent interest and a cash commission of 5 to 10 per cent, the rate of commission depending on the appearance of the farm.

R. C. Mann, the farm-loan man, says he might make the loan at 6 per cent interest and a cash commission of 10 per cent if the farm is all right.

J. W. Squire & Co. will write us in a few days as to the rate they will charge to make the loan. Just as soon as we hear from this company we shall write you further.

Yours, truly,

WALLACE BENJAMIN & CO.,
By H. C. HALL,
Farm Loan Department.

Scarcely any competition for farm-loan business in Council Bluffs.

H. C. H.

EXHIBIT H.

Table showing purposes for which joint stock land bank loans have been made from organization to January 1, 1920.

Name of joint stock land bank.	Farmers buying first land.	Buying additional and.	Improvements	To pay existing indebtedness.
Virginian, Charleston	$225,000	$300,000	$450,000	$525,000
Union, Richmond	337,700	101,700	182,300	339,000
Iowa, Sioux City	297,400	234,000	136,400	768,900
First, Fort Wayne	423,550	126,450	13,200	326,300
Colonial, Norfolk	117,300	99,600	32,000	961,473
Guarantee, Wichita	293,800	182,000	97,135	475,065
Fremont, Fremont	500,000	700,000	100,000	3,000,000
Arkansas, Memphis	42,000	142,000	122,000	383,200
Mississippi, Memphis	28,000	118,000	169,000	401,800
Liberty, Salina	1,836,410	889,000	840,000	3,100,000
Peters, Omaha	778,000	651,000	41,400	103,800
First, Minneapolis	432,250	62,100	115,450	553,000
La Fayette, La Fayette	176,800	354,500	.....	339,700
Fletcher, Indianapolis	546,350	378,550	28,000	73,100
Montana, Helena	312,000	196,000	77,000	1,500,000
San Antonio, San Antonio	500,000	1,000,000	.....	2,000,000
Central Iowa, Des Moines	227,100	946,500	253,600	342,500
First, Chicago	2,400,000	1,200,000	900,000	1,500,000
Bankers, Milwaukee	800,000	856,030	550,748	731,172
Des Moines, Des Moines	405,500	1,325,000	.....	2,426,675
Lincoln, Lincoln	1,640,700	1,128,860	87,184	1,154,431
California, San Francisco	272,000	60,000	85,000	420,000
South Minnesota, Redwood Falls	1,200,000	170,000	82,000	867,000
First, Houston	137,000	138,000	52,000	808,000
Total	14,035,160	11,359,290	4,414,417	23,200,116

Pending application for loans: Amount of loans committed by all banks to be closed March 1, 1920, $54,200,000. The application for these loans have all been approved.

STATEMENT OF MR. A. H. JUDY, TUNSTALL, VA.

Mr. JUDY. Mr. Chairman, in answer to the question as to why there should be two land banks—one set of farmers do not want to have common stock in any institution, others will cooperate and take stock; the joint-stock land bank answers the needs of the one set

of farmers and the Federal land bank answers the needs of those with the cooperative idea.

Now, as to the amount of capital, when it can be shown that the loan to be used is to be employed by the farmer residing on the land and developing and increasing production of agricultural staples, the limit on these loans is not extreme.

Here is the point. You can not say you will only loan $2,500 and loan that to a class that only wants $2,500, and here is a man that wants $25,000 who is just as capable of using it as the man who wants $2,500.

I want to make a personal statement here. Since this bill has been pending and the statement has gone out from the joint-stock land bank that all business is suspended until the outcome of this bill is determined, my neighbor, Mr. J. H. Upps, was approached by a loan shark and offered $10,000, that should have been furnished him by a joint-stock land bank. He was offered this loan for five years. with a discount or commission of $500 off at 6 per cent interest. Now, the question is, at the end of the five years, without the influence of the joint-stock land bank or the Federal land bank, what will the loan shark ask him when the debt becomes due, when the deadfall comes down on his property? The encouragement to men to enlist and to engage in agricultural pursuits by the fact that we have to-day the Federal land banks and the joint-stock land banks is one of the great bright spots that we can see in the near future for increasing agricultural production, and unless this agricultural production is increased, the unrest that is menacing us now must go on to a crisis that will shake our Nation.

Hamstring any financing of the farmer and you menace Liberty bonds—because 60 per cent of the assets of the United States are invested in farms and farm operations—all commercial enterprises, including your national banks and the very Nation itself.

(Thereupon, at 12 o'clock, the committee adjourned until Monday, Jan. 12, 1920, at 10.30 a. m.)

EXEMPTION OF FEDERAL FARM LOAN BONDS FROM TAXATION.

SECOND DAY.

MONDAY, JANUARY 12, 1920.

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10.30 o'clock a. m., pursuant to adjournment of Saturday, January 10, 1920.

Present: Senators McLean (chairman), Gronna, Norris, and Kendrick.

The CHAIRMAN. I understand that you gentlemen wish to add something to the presentation you made to the committee the other day, and you now have had opportunity, Mr. Finley.

Mr. FINLEY. Mr. Chairman, if it please the committee, certain questions were asked on Saturday that we fully anticipated would be asked, but in our effort to get through as promptly as possible, and under the thought at that time that we would have about three hours and only had two hours, they could not be gone into quite as fully as we would like to have gone into them, and therefore we would like to ask the committee this morning first to hear Mr. Guy Huston, president of the First Joint Stock Bank of Chicago, on the real effect of removing the tax exemption from these bonds.

STATEMENT OF GUY HUSTON, PRESIDENT FIRST JOINT STOCK BANK OF CHICAGO.

Mr. HUSTON. Mr. Chairman and gentlemen of the committee, the loss of revenue to the Government through the converting of farm loans into tax-free bonds is very small.

There are $4,000,000,000 of farm mortgages in the United States, which, according to the best authorities, are held as follows:

Insurance companies	$1,100,000,000
Savings banks, State banks, trust companies, and commercial banks	1,000,000,000
Eleemosynary institutions	400,000,000
Local loans	1,250,000,000
All other	250,000,000
Total	4,000,000,000

On the first two classes of investors, which carry $2,000,000,000 of the volume of the mortgages, income tax is paid only on the profit of those institutions, just as joint-stock land banks would pay on their profits as banks. Eleemosynary institutions pay no income tax.

Local loans are those carried in small units by local investors who pay only a nominal income tax, if any. These are not commercial loans and will not be disturbed and can not be made under the provisions of the Federal farm loan act. This leaves only $250,000,000 of loans that could be rewritten into this act, the holder of which may be now paying an income tax.

When an investor buys a bond issued under the Federal farm-loan act it does not necessarily follow that the Government thereby loses the income tax on a portion of the investor's income. If he did not buy our tax-free bond he would buy a municipal bond that is also wholly tax free. If he buys a farm-loan bond his money has gone into productive channels and is financing the man who feeds the world. It stimulates every human activity creating a large amount of new taxable wealth and thus increases revenues while lowering the cost of living. It is not anticipated by students of the farm-loan situation that more than one-fourth of the volume of farm loans will ever be made by banks operating under the Federal farm-loan act but the competition of these banks will control the interest rates on all farm loans for a farmer will not pay excessive commissions and a high rate of interest when he can get his money through banks operating under this act at reasonable interest rate.

New York City has a funded debt of $1,450,000,000—a greater amount than will ever be issued of farm-loan bonds. This is wholly tax free as to income. When the June offering of $10,000,000 of the bonds of the joint-stock land banks came out the city of New York offered and sold $32,000,000 tax-free bonds. Financial papers carried very brief notices and no comments were made on these bonds other than referring to the price they brought. They were oversubscribed and no public offering was ever made, but tens of thousands of dollars were spent on a propaganda against the offering of joint-stock land bank bonds.

The only demand for taxation of these bonds is that carried on by a small group of farm-mortgage brokers, who style themselves the American Association of Farm Mortgage Bankers. That association is composed of less than 300 members, of which I am one. Only 80 of these members subscribed to this propaganda last year, and I deny their right to claim that they represent the 6,000 farm-mortgage dealers and brokers of America.

Senator NORRIS. I would like to ask you this. You compared these tax-free bonds of joint stock banks with the municipal bonds and so forth, using New York as an illustration. Now, the holder of the municipal bonds has to pay the State tax, does he not?

Mr. HUSTON. In very few States. They do not in New York, on New York City bonds.

Senator NORRIS. Is there not a tax of any kind in New York that they have to pay?

Mr. HUSTON. No. That was on the authority of the Wall Street Journal.

Senator NORRIS. At least they are taxable under State laws?

Mr. HUSTON. No, sir.

Senator NORRIS. I do not mean that they are actually paying a tax, but the State has authority to tax municipal bonds if it wants to.

Mr. HUSTON. No; as I understand it, one political subdivision can not tax the bonds of another subdivision.

Senator NORRIS. Of course there might be a constitutional provision in a State's constitution covering that.

Mr. HUSTON. Ohio has a constitution provision——

Senator NORRIS. A State has a right to tax mortgages in the State, or bonds, and even to have an income tax on those bonds if they want to; but we preclude them from taxing your bonds in any way, we relieve your bonds from taxation by State or municipal authority, and also relieve you from taxation by the Federal Government under the income tax law, so I think you will have to concede that there is that difference in your bond.

Mr. HUSTON. I do not think municipal bonds are taxable as a rule; at least, with very few exceptions.

Senator NORRIS. Why, we speak of their not being taxable because the Federal Government does not tax them—and there is a constitutional question even in that, as to whether the Federal Government has a right to do that—but for the sake of argument, concede that the Federal Government has no right to tax the bonds of municipalities or States; it does not follow the States can not do that.

Mr. HUSTON. I can only say they do not. I am not a constitutional lawyer; I do not know the constitutional questions.

Senator NORRIS. Well, I am not familiar with the laws of all the States, of course; but as a fundamental proposition they can tax them when they want to.

Mr. HUSTON. They do not in Illinois.

Senator NORRIS. Unless they have a State constitutional provision that would prohibit the State from taxing, for instance, municipal bonds of that State. Some States do not tax mortgages the same as others do. I am not sure but what some relieve them from taxation practically entirely.

Mr. ALLEN. May I suggest this: That they could not tax bonds that were issued upon a tax-exemption law, and most of them are issued and have been up to the present time——

Senator NORRIS. If they were issued under tax-exemption law——

Mr. ALLEN. Yes; and that is the condition that Mr. Huston is speaking of.

Senator NORRIS. But the Federal Government has authority over things of that kind, and they can change the law if they want to.

Mr. HUSTON. Yes.

The CHAIRMAN. Where did you get your estimate of farm mortgages?

Mr. HUSTON. That is often quoted. I think they are figures taken from the Department of Agriculture here, and they have been amended from time to time. The census of 1910, I think, gives the figures as $3,200,000,000, and they have estimated that the increase has been so much.

The CHAIRMAN. It is a mere estimate?

Mr. HUSTON. Well, it is used by the Department of Agriculture here.

The CHAIRMAN. I have seen it stated in the press recently that it was nearly $6,000,000,000.

Mr. HUSTON. That is not true. I have seen that statement. I know where it comes from, and I challenge the statement.

The CHAIRMAN. Well, I suppose all these securities could be converted into joint-stock land bonds in course of time.

Mr. HUSTON. No. In Illinois it is estimated by students that half the loans made are not commercial loans.

The CHAIRMAN. That would not be necessary with the insurance companies or the mortgage companies.

Mr. HUSTON. I say a commercial loan. The title to the land is not such that a loan could be made under this law or by an insurance company. They are held in the locality of the farm, and must be; they are purchase-price contracts; there is an outstanding dower interest, or it is on undivided interests; and a very large percentage of the loans are of that class. And it is estimated—in one county of Illinois we made that estimate ourselves and we so figured it—that less than half the loans were commercial loans.

The CHAIRMAN. That would not apply to the loans taken by insurance companies or savings banks?

Mr. HUSTON. No, sir. Those are commercial loans.

Mr. FINLEY. Mr. Chairman, we would like for the committee to hear Mr. George L. Ramsey, president of the Montana Joint Stock Land Bank, of Helena, Mont. Mr. Ramsey comes from that section of the country where the State banks——

The CHAIRMAN. Before that, if you please, I would like to ask Mr. Huston a question. You are not president of the Chicago bank, are you?

Mr. HUSTON. Yes, sir.

The CHAIRMAN. I would like to ask just one more question. What are your profits?

Mr. HUSTON. To date, to January 1, they run approximately 11 per cent, but that, of course, includes 6 per cent interest collected on our own capital loaned and only 5 per cent profit from operating the bank.

The CHAIRMAN. Do you think a private institution ought to be permitted to earn 11 per cent on subsidized bonds?

Mr. HUSTON. Yes; a well-managed institution that does not earn 11 per cent would not be a successful institution, and we have large liability.

The CHAIRMAN. It seems to be the general impression that 5½ or 6 per cent is enough for the railroads.

Mr. HUSTON. We are not merely investors, we are operators. We are taking the chance of bad loans and bad seasons, and a hundred other things.

The CHAIRMAN. Railroads are operators, are they not?

Mr. HUSTON. You are speaking of the bondholders; but if you would pass a law that no one should get more than 5½ per cent on his stock in a railroad, there never would be another one built.

The CHAIRMAN. I am not disputing that personally, but that is not the question. You are seeking for a Goverment subsidy, you are running a private institution. You admit you are making 11 per cent. Now, could not you make a reasonable profit, 6 or 7 per cent, without that subsidy?

Mr. HUSTON. We could not make a dollar; we could not sell a bond; we could not serve a community.

The CHAIRMAN. If that is true, then—and you, as I understand from Mr. Finley, are willing that you should operate under the same limitations as are now imposed upon the Farm Loan Association and their bonds—why do you need the two systems?

Mr. HUSTON. We are running over my time, but I will be glad to say that my observation is that the farmer is an individualized person, the farmers of America did not build up this country in small units; they did not build any villages; each man put his axe on his shoulder and went into the forest or to the plains and built this great agricultural country, and the men we are loaning to-day are their descendants, and they are much like their forefathers, they like to borrow from private individuals. The Federal banks are doing a great work, but many of the farmers prefer to get their loans from individuals. Some of them like to get their loans through corporations, but many of them prefer to deal with individuals.

The CHAIRMAN. Yes; but with the cooperative associations, composed of farmers, a farmer can protect himself against what are denominated the land sharks and the speculative investment companies, and where the Government furnishes the funds, which is the case with the farm-loan banks, in the first instance—and I understand it has subscribed for nearly all the stock—is not that as far up as the Government ought to go, and ought not the farmers, where they form these cooperative associations, ought they not to be able and willing to pay the current rate, where the Government furnishes the funds in the first instance, the same as any other class of men who are protected against the speculator and the land shark?

Mr. HUSTON. They would not be protected if you do not give them the advantage of marketing their bonds in the present way. They can not raise the money; it has simply got to come back——

The CHAIRMAN. But we had it up to $10,000. Is not that enough for the small farmer to expect from any association which is subsidized by the Government?

Mr. HUSTON. The small farmer, yes; but it is not an economic unit in many sections of the country.

The CHAIRMAN. That is all. Does any other member of the committee desire to ask Mr. Huston any questions? If not, you may call your next witness.

Mr. FINLEY. May I precede Mr. Ramsey by saying that I rather think you misunderstand me, Mr. Chairman? On Saturday I tried to make it plain that we were agreed that the two systems should go along together, so far as the purpose was concerned. I think if you will examine the record you will find that that was as far as my statement went. I want to say that Mr. Ramsey comes from Montana, from a section of the country where these State banks originated, and is quite familiar with the thought in that section in reference to this subject, not only as to what has been done, but what is intended to be done, and also as to the farmers' viewpoint, and if you could hear him for about 10 minutes we would be glad to have you do so.

STATEMENT OF GEORGE L. RAMSEY, PRESIDENT OF THE MONTANA JOINT STOCK LAND BANK, HELENA, MONT.

Mr. RAMSEY. Mr. Chairman. I come from out in the State of Montana. I am an owner and operator of farm lands in Montana,

and have been in commercial banking in Montana for more than 30 years.

With my associates, I organized the joint-stock land bank in Montana, and I wish to tell you gentlemen that I am consulting my conscience when I say to you that I did not organize it so much for the possible profit as I did for the benefit that would come to the people of our State. I can say to you that we were impelled to the extent of 70 per cent by a desire to benefit the farmers, and perhaps 30 per cent by the profit that may come from it. We can not make from these banks more than 6 or 8 per cent except in exceptional instances. In the instance of the joint-stock bank of Chicago, located in the garden spot of the United States, with tremendously big loans, naturally its business has been very large, and it has made an extra-good profit, but for most of these banks there will be but a small profit.

We have been in business since April last and we are yet $10,000 behind; our income has been $10,000 behind our expenditures, although our expenditures are on a moderate basis.

I come to you no more as a joint-stock land banker than I do as representative of the farming interests of our western country. When I am talking for Montana I am talking with the same tone and with the same force for the farmers of the blue-grass region and the grazing lands of West Virginia and the cotton fields of Texas, and the wheat fields of Dakota. We need out there cheap money, and our reason for the organization of a joint-stock land bank and taking advantage of the benefits granted by this act was in order that we might operate in the same way that a railroad company operates when it builds up its communities and its neighborhoods in order to get the passenger and freight traffic that results from the building up of that community.

We organized a joint-stock land bank not for the profits that will come from that joint-stock land bank, because we could make much more money on our capital used in other directions, but for the benefit that would come to the commercial development of the State of Montana and the State of Idaho, which is contiguous to our State, which we selected under this act.

Now, gentlemen, the farmers out our way for the first time in their existence, and this applies to the farmers of the whole country, can feel their way when they make a mortgage loan. I have had farmers say to me: "This is the first time I have felt comfortable in my life," when the papers were signed and the money paid over; for the reason that heretofore, as they said, they looked forward to a 5-year renewal of their mortgage and the favor of a mortgage broker, and the payment of a commission, and they have said to me: "To-day I have it placed for 33 years, and I now see that I shall be able to pay this debt under the wonderfully beneficent provisions of this act, a 100-cent debt with 33 1-cent payments, and it is accomplished by no compounding of interest, no building and loan association computations, no actuarial figures, but by plain 6 per cent interest," and in that way the farmer pays a 100-cent debt with 33 1-cent payments, and in the meantime pays but 6 per cent on his loan.

He is granted the further elastic privilege, if he wishes to pay off the loan before 33 years, by being permitted to pay off any part of it on an interest-payment date, without previous notice, after 5 years.

Senator GRONNA. Are you speaking of Montana altogether?

Mr. RAMSEY. I am speaking for the farmers of Montana and the farmers of the entire country.

Senator GRONNA. What is the average amount of the loans made in Montana?

Mr. RAMSEY. $2,200. Our average is small compared to other joint-stock banks.

Senator NORRIS. What proportion of the men to whom you loan the money actually live on the land and cultivate it?

Mr. RAMSEY. Fully 95 per cent in our case.

Senator NORRIS. And can you give us an idea as to what these 95 per cent did with the money that they borrowed?

Mr. RAMSEY. Yes, sir; probably 10 per cent of them used the money to buy live stock with and better their farms—probably 15 per cent. Another 15 per cent used the money for bettering their homes, and another 10 per cent probably used the money for the purchase of machinery and other necessary things for the improvement of their farms, and the balance to pay off previous loans.

Senator NORRIS. Now, how many, if you know, of the men who have borrowed money in Montana of you have borrowed sums of $10,000 or less?

Mr. RAMSEY. Our volume of loans is still small compared to the banks generally, so that I imagine—did you say $10,000 or less?

Senator NORRIS. Yes.

Mr. RAMSEY. Oh, probably 75 per cent of them in our country.

Senator NORRIS. That 75 per cent of them, if they were living on the land and cultivating it, as you say 95 per cent are, would have been able to have gotten their loans through farm loan banks, would they not?

Mr. RAMSEY. Yes; but, if you please, if you borrow from the farm loan bank you have to join an association of your neighbors, do business with your neighbors, expose the privacy of your affairs to your neighbors and their gossip; you have to accept a payment of 95 cents on the dollar in cash and 5 per cent of your loan is given to you in stock of the Federal land bank of that district, and you have to assume a responsibility in all the loans of all the banks of the United States, and for the 5 per cent stock given to you you assume a double personal liability.

Senator NORRIS. Well, that is the extent of your liability, though, while you assume that——

Mr. RAMSEY. Yes; for the guaranty—double your liability.

Senator NORRIS. Yes; that is the extent of your liability. Now, would you be willing that the law should be changed so that you could loan only in amounts of $10,000 or less and only to men who were actually living on the land and cultivating it?

Mr. RAMSEY. I believe it would be wise to amend it so that loans could only be made to men living on the land. That would not affect our country materially, because most of our people are occupants of their farms. It is in the older communities——

Senator NORRIS. Would not that carry out the idea that the favors the law gives by reason of exemption of tax be confined to men actually living on their land rather than speculators living in town?

Mr. RAMSEY. We have no material objection to it. I am here to say to you now that I am willing to have you bring us under all

the restrictions and all the environment that you bring to the Federal land banks, except as to amount—and we serve a different class of people; we serve that independent class of men who do not want to become liable——

Senator NORRIS. I understand that is one of your arguments, and I think there is a great deal in it.

Mr. RAMSEY. And I may say this, that we have in this country this sort of a situation: National banks for the commercial interests and no banks for the men who are farmers, with a fine, strong commercial instinct. We have no banks for that man who wants to borrow $10,000 or more, or $8,000, say.

Senator NORRIS. Well, if we want to help agriculture now and want to provide inducements to get the men onto the farm and to keep men on the farm, and let renters become owners instead of tenants, and we resort to an expediency to give them an advantage over the balance of the country by issuing their bonds tax free, ought we not to confine the governmental instrumentalities to the fellows who are actually farming, rather than giving the speculator an advantage under the law? Why should we give to men speculating in farm lands, any more than we would to men who are in the merchandise business, tax-exempt bonds?

Mr. RAMSAY. In response to that, sir, I should say we would bow most respectfully to whatever your judgment concludes. I do not think it is a wise thing to do, but I do not assert my own judgment as against yours, with your national-wide vision. We are men with a local vision. May I proceed?

The CHAIRMAN. Yes.

Mr. RAMSEY. I want to get into this record the plea from the farmers of the West; I want to say that the effectiveness of this law is necessary in order to keep the farmer on the farm. In the corn belt of this country, which is the garden spot of the Nation, the population in 1910 was less than it was in 1880.

Senator NORRIS. If you want to keep the men on the farm, why should you loan to the men who are not on the farm; that will not induce them to go back on the farm, will it?

Mr. RAMSEY. I am explaining to you, sir, that the suburban population of the corn belt of this country in 1910 was less than in 1880. Take McDonald County, Ill. The population in 1910 was less than it was in 1880. At the same time the cities of that same county, that same corn belt, have increased 150 per cent. You have got to do something to keep the farmer on the farm, you have to give him some benefits. He is the only man in this Nation who has had no particular benefit from the Government. We are pleading for the joint-stock land banks. We are pleading for that man that can not go into a national bank and borrow money on his farm.

It is true the laws allow a national bank to loan a certain amount on farm lands; but it is the policy, almost universal, for them to refuse to loan on mortgages on farm lands. Therefore there is no place for a man to go who wants to borrow any large amount; and, gentlemen, the question involved here is not one of saving by some devious or indirect way on income tax, it is food production. And I wish to say this, Senator, that there may be criticisms, tenable criticisms, against this law, but it is on the statute books, and we

are now in the most critical period of the whole world, and if this does increase production—and it does—it surely should not be interfered with for the next three or four years.

I am telling you gentlemen that the farmers are just beginning to realize that the Congress of the United States is undertaking to disturb in one way or another this law, and the farmers are looking up in profound amazement, wondering what it all means. This is the first time in the history of the Nation that a benefit was granted to them and given to them of some little value, and they are wondering why it should be proposed to immediately take it away from them, and it is going to make a feeling of resentment and unhappiness all over this country so deep and broad and so colored with the gloom of despair and discouragement, that you will find a sentiment among the farm population of this country that will be heard from the Alleghenies to the Rocky Mountains.

Senator GRONNA. Where is your bank located?

Mr. RAMSEY. I live in Helena, Mont.

Senator GRONNA. And your bank is located there?

Mr. RAMSEY. Yes, sir.

Senator GRONNA. That is a rather old, settled country, is it not?

Mr. RAMSEY. Yes.

Senator GRONNA. A mining district?

Mr. RAMSEY. Yes.

Senator GRONNA. Is it much of an agricultural district?

Mr. RAMSEY. Not so much around our section as around Billings or Miles City or Bozeman or Great Falls, but it is the capital of the State.

Senator GRONNA. From what part of your State do your loans mostly come from?

Mr. RAMSEY. The eastern and also the western and southern part of Montana, all around the State, all over Montana.

Senator GRONNA. Do you get many from the northeastern part?

Mr. RAMSEY. From Sheridan and eastern part of Valley County we do. We are not making any loans on the Great Northern west of Glasgow; in the northern one-fifth of the State we are not loaning any money because of the drouth conditions, but we are loaning in the southern three-fifths and in Sheridan County, next to your State, Senator.

Senator GRONNA. I know a great many of your people, fortunately or unfortunately, have left your State on account of the drouth.

Mr. RAMSEY. Yes, but principally on the Great Northern Railroad line.

Senator GRONNA. By the thousands they have left there.

Mr. RAMSEY. I must object to the statement that they have left by the thousands.

Senator GRONNA. I know considerable about it, because I think my correspondence is probably larger than yours.

Mr. RAMSEY. No doubt it is, but I must protest against the statement that they have left by the thousands.

Senator GRONNA. I say it is by the thousands.

Mr. RAMSEY. Then that is a direct contradiction.

Senator GRONNA. Well, my statement will go into the record along with yours.

Mr. RAMSEY. Yes.

Senator GRONNA. Do you think you have many farmers, especially among the homesteaders, who came up to Montana, who would require more than $10,000?

Mr. RAMSEY. We have a great many who borrow $10,000 or $20,000 or $30,000.

Senator GRONNA. You are speaking now of stock men?

Mr. RAMSEY. No; of grain farmers; of producers of wheat, rye, barley, oats, and alfalfa.

Senator GRONNA. What percentage of the farmers would require more than $10,000?

Mr. RAMSEY. In numbers of farmers?

Senator GRONNA. What percentage?

Mr. RAMSEY. In total numbers of farmers that would require more than $10,000, probably from 15 to 20 per cent. Our State is progressing more rapidly than you are imagining. There is many a farmer in your State that requires more than $10,000.

Senator GRONNA. The average loan made by the farmers in my State is $2,500, taking the $36,000,000 loaned by the Federal Bank of St. Paul, and that is true of Minnesota, Michigan, and North Dakota. That average is $2,500.

Mr. RAMSEY. But the average of applications made to your North Dakota State Bank, based on the same plan as this, with amortization payments, is far more than $2,500. Many of them are more than $10,000.

Senator GRONNA. Which State Bank?

Mr. RAMSEY. Your land bank of North Dakota, a part of your new State banking system.

Senator GRONNA. Well, my State has always loaned the school money. Do you include that?

Mr. RAMSEY. But now you have a law based upon the same plan as this—Federal land bank law, by which the State issues bonds against the mortgages deposited with the trustees, and you sell the bonds in the open market.

Senator GRONNA. We won't go into that, because they have been unable to sell the bonds. But I am anxious to find out this: What I wanted to know was what is the function, so far as Montana is concerned, of the joint-stock land bank? Is it possible for the farmers of Montana to get along with the Federal land bank or is it necessary to have the joint-stock land bank because larger amounts are required than they can obtain through the mutual associations?

Mr. RAMSEY. Yes, sir.

Senator GRONNA. Now, I will say this to you: I am quite familiar with conditions in my State, as I have been there 41 years, and I know something about the conditions there. I know we have no demand from the people in North Dakota for the joint-stock land banks, but the Government of the United States has loaned $15,000,000 in our State in small loans. Let me say that that was what this law was intended for—to give to the man who had no farm an opportunity to get a farm, or to give to the man who was unable to have his rates of interest standardized, make it possible for him to get money at a living cost.

Mr. RAMSEY. I understand.

Senator GRONNA. We did not make it for men like myself. I can borrow in large amounts and do borrow in large amounts—$40,000 or $50,000; I can go to Minneapolis, Chicago, or Duluth, or any other city out there and get money at a reasonable rate—at 6 per cent. Now, is it necessary for the people of Montana to have a joint-stock land bank to promote agriculture?

Mr. RAMSEY. It is absolutely necessary in order to get money at 6 per cent. I want to say to you that the mortgage companies in our State have no rate less than 8 per cent, that they are getting 8, 9, and 10 per cent. I do not know whether our secretary has put into the record or not the records I have got for him, of the book and page of the mortgage record, of mortgages filed in November and December, 1919, showing that the mortgage houses were getting 10 per cent, and sometimes they are exercising usury above 10 per cent and getting a commission of 10 per cent. I want to say to you that the Great Union Central Life Insurance Co., of Ohio, which has the largest volume of farm mortgages outstanding, are putting out in our State a 6 per cent 20-year amortization, as they have the effrontery to call it, loan and creating the impression that they are taking care of the situation, and yet that loan is a loan repayable at a rate of $10.53 a year for 20 years, and the farmer loses sight of the fact that he has the use of but one-half of his loan for the full term, and the loan figures out that he is paying 9 per cent interest. Then they say we meet the Government's conditions by allowing you to pay it off if you want to, but the contract is such that if a man pays off his loan at the end of 8 or 10 years, his interest has cost him 13 per cent per annum. That is the situation in Montana, and that is why I am pleading for 6 per cent money to develop that State.

Senator GRONNA. We had the same condition in North Dakota until we were established. In the western part of our State it is not an easy matter to get the money for the farmers, but take the eastern and they can get all the money they need at 6 per cent. Now, I know the conditions in your State and I am not opposing. I am in favor of getting your farmers' money just as cheap as they can get it anywhere else in the world. I am in favor of that you understand; but is it not possible that if the Government or if these banks that you are establishing now take a great many mortgages, which means that a great amount of bonds must necessarily be issued, is it possible that we are going to take from the farmers the opportunity of getting any money under the system, because you know that there is a great demand to repeal the entire law except for tax-exempt bonds. Now, that seems to me something that you should take into consideration. What percentage of farmers need the large amount you are referring to, and what percentage are satisfied with less than $10,000? We do not want to repeal the law, so far as I am concerned, and prohibit the farmer from getting at least $10,000. That is not in the minds of this committee, I think, although I can not speak for the others.

Mr. RAMSEY. Now, departing from that line of argument—and I catch your point all right—I want to say that we need the larger opportunity to loan to the bigger farmers because the question involved and facing this nation for the next year or two is food production.

Senator GRONNA. That is true.

Mr. RAMSEY. I can give you the price current of wheat on the London market for every year since 1859, and in every case of a great war it shows the price of wheat was greater two years after the war than during the war. We are approaching that time now. And the reason for it was higher two years after the war than during the war was because of the scarcity of wheat, and this is no time to discourage the large farmer by taking away from him this law. Now, I want to say this as a side line to your arguments, that we put up $250,000 of our capital in this bank. If you disturb this law as regards the joint stock land banks, we have a 33 years' liquidation proposition on our hands that will develop into something of a loss in one angle or the other. I do not feel that the faith of Congress will have been carried out if you undertake to disturb us in this law to any appreciable degree, but I say to you that we are ready to put ourselves under any restriction you want to impose on the Federal land banks or any other restriction you think is proper, except as to the tax exemption and as to the amount of the loan.

We will feel that we have been unfairly dealt with, I think, if the law is changed in respect to these two matters, because we thought this was designed to benefit the farmer, and it does benefit the farmer, and we put in our capital because it does benefit the farmer, and we do not want to have it turned away from us because at this late day nobody, no one on the top of God's earth except the life insurance companies and the farm mortgage brokers of the Northwest, are asking for it. There is no one asking for it except the life insurance companies like the Union Central Co. of Cincinnati, and the farm mortgage brokers of the Middle West, who do not want to come under Federal supervision with their affairs, but who have announced that if Congress does not repeal this law they will come under it.

Senator NORRIS. Now, Mr. Ramsey, I do not think there is anybody who wants to do any injury to you people. I think it is generally conceded that you went into this business honestly, and you had a right to go into it. There is nothing wrong about that, and nobody looks upon you men as having done or doing anything wrong, but your argument is that they ought to continue, that we ought not to interfere with it now since you have gone into this business under the law. Would it not follow that according to your argument this law must remain on the statute books indefinitely?

Mr. RAMSEY. No, sir; but I ask not to be disturbed for the next two or three years.

Senator NORRIS. All right. In the next two or three years there will be hundreds more of these banks organized, and do you realize what an influence they would be able to exert through Congress to prevent the repeal of the law? I would like to hear you on this proposition: Assuming that Congress desires now to repeal this tax exemption, what should Congress do in order to protect you men who have gone into the business, in order to save you harm if we can? I do not know what the result of the committee's action may be, but assuming—and there is a strong probability that that may be the result—that when we get through with these hearings we will reach the conclusion that we ought to repeal this tax exemption matter, then the question will arise, What are we going to do about these institutions?

Mr. RAMSEY. Senator Norris, I shall not discuss it, I will not contemplate such a thing. If Congress should, and what I would deem to be ill-advised action, interfere with the tax exemption provision of this law, then we will probably be before you with suggestions of a remedy of some kind to take care of the people who have gone into this business.

Senator NORRIS. That might come right on the heels of this; perhaps it ought to be included in the law that repeals the tax exemption feature.

Mr. RAMSEY. What you ought to include in the law is giving the Federal Farm Loan Board the right to supervise the organization of these banks in the same manner that the Comptroller of the Currency limits the organization of national banks. The Comptroller of the Currency may determine if a town that wants a national bank needs the bank, first; and, in the second place, see that the men organizing the bank, if it is a bank that is needed, are competent bankers and the proper people to have charge of it. If you give the Federal board the same privilege in regard to these banks, the Federal Farm Loan Board can then govern the situation, and you have the precedent for it of the national banking law, which has been on the statute books since 1860 something.

Senator NORRIS. I would like to have your experience in your bank as far as you have gone. For instance, what do you have to pay in salaries, and how much in rent, etc.?

Mr. RAMSEY. We have a manager at $3,000 a year; we have a vice president without salary; we have a treasurer at $1,800 a year; we have a clerk at $125 a month. Also we have two stenographers, one at $100 and one at $85 a month.

Senator NORRIS. What salary do you get?

Mr. RAMSEY. Nothing.

Senator NORRIS. You do not get anything?

Mr. RAMSEY. Not a nickel.

Senator NORRIS. How long have you been organized?

Mr. RAMSEY. Since April.

Senator NORRIS. Do you devote a good share of your time to this business?

Mr. RAMSEY. Yes. I have been here 10 days in this matter now.

The CHAIRMAN. Has the appreciation in land values reached Montana?

Mr. RAMSEY. No, sir. And another thing. You fear land speculation will arise from this thing. The Federal board has limited loans in Illinois to $100 an acre, and in our country to $25 an acre on unirrigated and $50 an acre on irrigated lands. That prevents speculation.

The CHAIRMAN. Is there a difference in the rate on irrigated lands and unirrigated lands?

Mr. RAMSEY. The mortgage companies make a difference; yes. It is 6 per cent——

The CHAIRMAN. How much difference is there, is there quite a difference?

Mr. RAMSEY. About 1 per cent difference between what they charge on irrigated lands and nonirrigated lands.

The CHAIRMAN. Is it not more than that?

Mr. RAMSEY. Well, not between high grade unirrigated lands and the irrigated lands. That is, Senator Gronna, in Judith Basin they borrow at 8 per cent, and in the Gallatin Valley at 7 per cent. In the Gallatin Valley, adjoining your Gallatin Valley, Senator, they pay from 8 to 9 per cent. There is a difference there of 2 per cent, and of course on the 10 per cent loans in Montana they have increased this much more.

Senator GRONNA. I am afraid I did not make myself understood, but what I would like you to discuss is the question of whether it would be better to repeal the whole law, the tax exemption feature of the whole law?

Mr. RAMSEY. No; it would not.

Senator GRONNA. I mean that feature of both the Federal farm land banks and the joint-stock land banks.

Mr. RAMSEY. No, sir.

Senator GRONNA. Or if it would be better to repeal one or the other?

Mr. RAMSEY. No. I think we should leave the law as it is. There are outstanding in the United States some billion of municipal securities, money borrowed to build streets and pave streets and build sewers and waterworks, and the dwellers in cities have had all these wonderful benefits which we see around us by reason of the fact that they could borrow money cheaply on tax-free securities.

Senator NORRIS. I think you are wrong about their being tax-free securities.

Mr. RAMSEY. Let me say this. The tax-free theory in the United States is engrafted upon the Government of the United States as firmly, as strongly, and as firmly as steel barbed wire embedded in concrete and cement. Now, as you gentlemen all know, the tax exemption discussions occurred in the constitutional convention, and the quarrel was there between the representatives of the 13 States as to whether the super-State should be allowed to tax their securities, and the final result of it was that there was no record, and hardly anything put in our Constitution at all about tax exemption; but there was record kept in Mr. Madison's journal, and the members of the Supreme Court for 30 years consulted what was contained in that journal about that matter, in rendering many decisions on tax exemption cases between the States, those cases that came up beginning 5 years after the Constitution was adopted.

Senator NORRIS. I do not think you get the idea. I did not mean that the Federal Government should tax municipal bonds, but the State government can tax them.

Mr. RAMSEY. They can tax theirs, but not those of another State.

Senator NORRIS. So they are not tax exempt. Now, these bonds you have are tax exempt from both State and National taxation.

Mr. RAMSEY. Yes, sir; they are exempt from State taxes because they are national securities. Neither can a State tax other securities unless the law permits it.

Senator GRONNA. Before you get away from that, I think we all agree to this: That there is a subsidy to the farmers, we can call it a subsidy to the farmers, exempting their mortgages and bonds from paying tax. I think we all agree on that.

Mr. RAMSEY. Yes, sir.

Senator GRONNA. Now, then, the next question which seems to me fundamental is this: How far can we go to justify that? Can we go any further than simply to say we want to encourage the production of food for the human family, we want to increase the number of farmers? We want the little fellow who lives in the backwoods and needs $400 or $500, whom nobody knows. We want to give him an opportunity to build up a little home and to break up a little more land. I am not going into the detail of what he should use his money for. There is much to be said about that. But can we, I say, justify our position in saying that this special class, the farmer, shall have the subsidy for any other purpose than simply going into increased production?

Mr. RAMSEY. With indisputable evidence that we have 4,000,000 people starving in Europe, and with this country committed to the idea of taking care of the people of the world, production of food is the important thing, and it is the principal object in this whole thing. I want to say this as to income taxes that come to the National Government through this source. The income taxes of this country come, first, 32 per cent from corporations, 33 per cent come from personal endeavor, 19 per cent from excess on dividends, 12 per cent from rents and royalties, and 4 per cent from interest. If you exempted all interest from income tax there would only be a 4 per cent loss, and the portion that comes from the income tax from these bonds granted to these farmers is negligible and not to be considered at all.

Now, a second point I have here, and I will finish in two minutes. As a commercial proposition, if you people repeal this law you are simply going to cause all the States to pass income tax-free laws in their States, allowing the bonds issued against the mortgages of farmers to become tax free, and you are going to produce a chaotic financial condition in this country that will be appalling, which I dread, and I ask you to seriously consider.

In North Dakota you have such a law, although, as you have said, you can not sell the bonds. In South Dakota—here is a telegram from the banking department of South Dakota saying:

> Amount loaned to 5,000 farmers under the rural credit law, $20,000,000, at 5½ per cent interest Bonds issued, $21,000,000, all sold at an average rate of 4.94 per cent. Indications are rate on bonds will be higher in future. Our bonds are direct obligations of State and not debentures.

In the attorney general's office of the State of Montana is lying now the first draft of the same kind of a law for our State. They have one in Wisconsin. They will have them in all States in the West, and the point is that then those laws will be administered by inexperienced men and we will have trouble and losses and disturbance and chaos and confusion confounded, if you people take the Government supervision away from the joint-stock land banks and do not allow them to make loans to the large families. If you do not allow the large farmer—that is, the farmer that has an influence in the legislatures and the business world—if you do not allow them to borrow money at the same rate as their small neighbors, then they are going to the legislature and insist on the State passing that law, and when you do that with each State administering its own income-tax law, you are going to have chaos.

Senator NORRIS. What reason have you to think that this large farmer is going to be successful in getting tax exemption on large loans?

Mr. RAMSEY. The same as South Dakota. Those are large loans.

Senator NORRIS. As to South Dakota, do you know how large they are?

Mr. RAMSEY. No; but from hearsay I know they average very large.

Senator GRONNA. That is business done by the State?

Mr. RAMSEY. Yes, sir.

Senator NORRIS. I think it would be exceedingly interesting to know what the size of those loans is.

Mr. RAMSEY. I shall personally advise you.

Senator NORRIS. We can get that information, I think. But suppose all that happens now that you say, the result is that they exempt all these bonds and loans from tax. You just said a little while ago if we exempted the whole thing, all the loans, it would not cut any particular ice, because it is such a small amount.

Mr. RAMSEY. As far as the income tax is concerned.

Senator NORRIS. Yes; and it would not be any worse if the States did it than the Federal Government did it?

Mr. RAMSEY. The mortgage brokers have come to you with the argument that they want the tax repealed because it is interfering with the tax exemption——

Senator NORRIS. No; I think you are wrong about these particular people coming to us. I do not think the committee has been moved in any degree by any influence of that kind, and so far as I am concerned I do not know of any such influence. But there is a feeling, just as Senator Gronna brought out, that we ought not to go so far with the tax-exemption feature as to permit the fellows who do not need assistance, who have got big tracts of land, who live in the towns, and who want to speculate on land to borrow and not pay a tax to the Federal Government.

Mr. RAMSEY. Then confine it to the occupants of the farms only. Are there any farmers asking for the repeal of the tax-exemption privilege?

Senator NORRIS. I think there are, but I have not come in contact with them. As far as I know, I have not been moved by anybody's request or anybody's objection. It is a matter of justice with me as to what we ought to do, representing the National Government.

Mr. RAMSEY. I appreciate your courtesy. I have gone far over my time.

Mr. FINLEY. Just one word before we ask you to hear the last one on the program, and that is in reference to that question about the First Joint Stock Land Bank of Chicago, the president of which testified that in recent months he had earned 11 per cent.

That bank was organized among the first, and it was the first that got into active operation, about the time, I believe, of the beginning of the war. There was a great demand for money from all sources then, and they did almost from the beginning quite a large business without the necessity of paying commissions for it, because there was very little competition among the joint-stock land banks at that time.

I just wanted to call your attention to that, because I do no think it is possible for it to continue. They soon loaned up to their full quota and increased their capital. I can say for myself that in organizing the bank I am connected with I did not hold out in the sale of the stock any hope to our stockholders that we could pay more than 8 or 10 per cent, and that was predicated on no serious loss.

Now, if you please, Mr. Chairman, we would like for you to hear Mr. J. H. Allen, representative of the Des Moines (Iowa) Joint Stock Land Bank.

Mr. RAMSEY. May I make one correction? The Union Central Life Insurance Co., which makes a loan to farmers at 20 years, repayable at $10.53 per hundred dollars per annum, also charges $10 per thousand dollars per year commission on the loan for the full 20 years, which makes the 9 per cent cost.

A VOICE. Twenty years?

Mr. RAMSEY. Twenty years, I mean.

STATEMENT OF MR. J. H. ALLEN, PRESIDENT OF THE FIRST AND SECOND MORTGAGE CORPORATION OF DES MOINES, IOWA.

Mr. ALLEN. Mr. Chairman, I would like to make a few observations in reference to the tax-exemption proposition which has been presented here, and in dealing with that I desire to treat it as a subsidy, as has been suggested by this committee.

I think the use of the subsidies has been and is an established custom of this Government, or function, notably, those of us who are Republicans know that for many generations we held out to the Iowa farmers that we were levying tariffs for the purpose of building up manufacturing interests in the East, that we might create a home market for the Iowa farmers' products. I had that instilled into me from the time I was a child. The further proposition of subsidies can be traced into the building up of our railroad systems. For generations we granted subsidies to the railroads, in the form of public lands, and these lands are lands that these farmers, these pioneer farmers, settling upon, many of them to-day that are making the railroad properties valuable.

Then, again, we have the same principle involved in connection with the establishment and the building up of our farmers and the building up of immense cities on our coasts. Those are subsidies in a different form, but it is the same principle—the paying of particular sums or the granting of particular rights and privileges to institutions for the common good.

Now, for the first time in the history of this Government agriculture has received, as I am willing to call it, a subsidy. Never in the history of this country has agriculture received a single thing in the form of direct subsidy. To-day we have these joint stock and Federal banks. The question is now, Does agriculture get the benefit of the subsidy?

The joint land banks claim that they do, that the Government and the people will be more than compensated in the increased production and in the lowering of the cost of living, and in direct taxes that will be returned to the Government and the States.

Now, let us follow that line of argument just for a moment. A few years ago I happened to have some little interest in lands in South Dakota, and I decided that I would prefer to sell those lands than to keep them. Land buyers were very hard to find in South Dakota. These lands were in the eastern part of the State, and I decided that rather than try to improve those lands and rent them I would sell them to men of very moderate means, and I proceeded to sell them to tenants, some of them that were even behind the game, that were owing really more than they were worth, and I paid the debts of some of them, and I moved them to South Dakota. I sold them the lands with something down and the balance on time, with the result that those men went onto the lands. I furnished them the money to build their houses, I furnished them the money to buy their cattle, I furnished them the money to buy their horses and to buy their machinery, and some of them, young fellows, even furnished them money to furnish their houses and get married.

Senator NORRIS. You did not furnish them their wives?

Mr. ALLEN. No; I did not furnish the wives.

Now, gentlemen, what has been the result? They could not pay their taxes, many times could not pay their interest. I simply stayed with them. I paid their taxes and I carried their interest. They improved the land, dug out the stones, and some of this land was quite stony. Mr. Gold knows the history of these cases and is very familiar with them. Now, what was the result? About eight or nine years ago I started them. I started them with 10 or 12 cows, and those men have 75 to 100 head of cattle to-day. I simply allowed the stuff to accumulate. Now, these land banks—Mr. Gold is doing it right to-day. He is taking up the mortgages on those lands and the contracts through his joint land bank, enabling those farmers to keep the cattle that I helped them to accumulate by staying under the burden and paying 8 per cent, to keep the cattle on those lands for those men in many instances. Now, the record is simply this: Those tenants that did not have a dollar to-day are worth $8,000, or $10,000, or $20,000, and some of them more, and those farms are lands that would not have been improved up to the present time and are producing 800 or 1,000 head of cattle.

The CHAIRMAN. That is what we want to do, but how many of those farmers did you give more than $10,000?

Mr. ALLEN. I gave some of them as high as $25,000 or $30,000. Do you know how much it takes to-day in stock to operate an ordinary farm?

The CHAIRMAN. You spoke about giving them 8 or 10 head of cattle to start with. Did they get more than their eight or ten thousand dollars' worth?

Mr. ALLEN. Yes; in many cases. Of course, if you buy 8 or 10 cows, that does not take eight or ten thousand dollars, but to carry the proposition through and permit them to get what is necessary in order to put them in a position to carry on a successful industry it is necessary to give them what I say. The average quarter section in Iowa to-day that is operated successfully has not less than ten to twenty thousand dollars' worth of personal property on it.

Senator NORRIS. I think that is probably true as to Iowa, but, of course, Iowa is comparatively a garden spot in the country. When you went into South Dakota you did not have anything of that sort?

Mr. ALLEN. No.

Senator NORRIS. They had to have something to operate, of course. I would not understand, however, that a man in a new country like that would need $10,000 on 160 acres of land to operate successfully. I really do not see the necessity of his using that much money.

Mr. ALLEN. Well, I will tell you how. Some of these lands were stony, and it took a lot of time to clean the stones off them and get the land in successful operation, and they had to have the cows in order to get their living, and the result was—I did not say that I gave them $10,000 to start on—but you take the ordinary set of buildings, and they cost four or five thousand dollars, or to put up a barn and a fairly good house now, and the necessary fencing, will cost four or five thousand dollars at least.

Senator NORRIS. That might have been true there, but you have asked me the question as to the country I live in, and I would say that it did not take four or five thousand dollars. You could have used it, of course. You could have built a house that would have cost $10,000 or $20,000, but the ordinary farmer did not do it; he got along without that much.

Mr. ALLEN. But, as I view the proposition, if you are going to keep men on the farm, you can not put them between a couple of flat boards and tell them that that is a farm.

The CHAIRMAN. But you must anticipate at some time there will be a stage when you are going to make some money?

Mr. ALLEN. That is very true, and these men made money.

The CHAIRMAN. And when they are making money they would rather decrease their obligations, I suppose, instead of increasing them?

Mr. ALLEN. Certainly, but these loans that are being made will enable those men to keep the cattle. I left northern Iowa and moved down to Des Moines and got into other lines of business. I did not care to carry on that line indefinitely, and these men had not accumulated enough to keep their cattle and pay me; but by increasing their loans this way they are able to keep their stock and business go on in a normal way.

Senator GRONNA. May I ask you where those farms are located?

Mr. ALLEN. Yes, sir; they are in southeastern Roberts County and northeastern Grant County, S. Dak. That was wild land. In every one of those cases, through the operation of this law the Government will more than profit by any difference in the question of tax exemption.

Senator NORRIS. I think it is well for us to consider that the tax-exemption feature is a little different from what it was before the war. It is an acute proposition now; we are driven to all sorts of schemes to raise money to keep the Government going now, and, of course, even when this law was passed, before the war, we did not have those conditions. I think we ought to take that into consideration. We have to recognize that the Government has to raise an enormous amount of money from some source, and every possible source that is legitimate we want to keep open.

Mr. ALLEN. Pardon me for a suggestion.

Senator NORRIS. Yes; we would be glad to have it.

Mr. ALLEN. Well, I would suggest that you stick a pin into the bunghole of the pork barrel and that will stop the leak.

Senator NORRIS. I know; that can be said of any other item, you know.

Mr. ALLEN. That is one suggestion.

Senator NORRIS. Stick the pin in, but you know that there are thousands of them.

Mr. ALLEN. I know. Yes; I know your problems.

Senator NORRIS. Every one of us thinks that he could devise a taxation scheme that would be very easy—I know I do; but, unfortunately, the balance of the fellows do not agree with me and we have to compromise on it and do a lot of things that we do not like to do.

Mr. ALLEN. The facts are, as has been said a number of times, in the question of tax exemption, there are over $16,000,000,000 of tax-exempted securities. There are about $50,000,000 of joint-stock land banks, or about a third of 1 per cent. If all the mortgages were refunded there would be in the neighborhood of all the mortgage indebtedness on farms, it would be around perhaps 20 per cent of the tax-exempt securities, something in that neighborhood, which, of course, will never happen, because, of course, the insurance companies will naturally continue in the field, and they do not pay an income tax upon that class of securities anyhow; and you have gone over the whole list, so it is not necessary for me to go into that. But I want to call your attention to another fact.

Now, financing agriculture, as has been said, requires a different kind of financing than that required for commercial business. We have large commercial banks over this country that provide millions of dollars of liquid capital for that class of business, and that is available for commercial business without income tax or any expense whatever except what the bank may levy. Is not that a proper statement?

Senator GRONNA. I think so.

Mr. ALLEN. Now, a farmer wants to finance his farm for the production of cattle; he wants to finance his farm to create a herd of thoroughbred cattle. He goes to his banker and says, "I need $5,000," or "I need $10,000 for this purpose." The banker says, "All right; I will finance you." He writes out a note for six months. Now, can you imagine a man going into an industry or business that will require 5 to 10 years to really develop upon a six months' accommodation? And yet the farm is a factory and nothing else. No man would be crazy enough to come down here and undertake to build up a great manufacturing business relying upon his ability to get capital upon a six months' renewal basis. He has to have his accommodations for the purpose of his liquid capital required, but his permanent capital, the thing which makes the base of his factory, must be obtained upon a long period of years. Is not that true? But the farmer wanting that kind of capital must go to the commercial bank and get it, and he must get it on a 6 months' renewal, and he is subject, like the commercial man who makes his turnover every 60 or 90 days or every 6 months, to the same laws with reference to the question of money conditions that the commercial man is, and many a man who has produced meat, for instance, has been compelled to sacrifice his herd in stringent times at an absolute loss, and many times almost to the extent of bankrupting him.

The CHAIRMAN. Are they not establishing savings banks in the West more or less now, in the country, where they are doing business on a large scale?

Mr. ALLEN. Savings banks have gone practically into the commercial business. They make loans on city property, and a few of them go into the country.

The CHAIRMAN. Is not the farm mortgage the principal loan the savings bank makes in the East?

Mr. ALLEN. That is a very small percentage with us.

The CHAIRMAN. And for any length of time?

Mr. ALLEN. Not the amortized loans.

The CHAIRMAN. I mean the savings bank loan on farms in the East; they may be on demand, but they are expected to run for years and do run for years. They get their money at not more than 6 per cent, and many of them get their high-class loans at 5½ per cent, and they are forming their cooperative associations and building and loan associations whereby they can provide capital and get this money at a local rate, at 6 per cent, all through the East.

Mr. ALLEN. Well, Senator, the situation in the East is a very different proposition.

The CHAIRMAN. I know it is, but it seems to me that it ought to spread, and all through the Central West and in the far West where the lands are fertile the time ought to come pretty soon when capital can be had on the agricultural interests themselves at reasonable rates without asking for Federal subsidies. The States do it, and you say it is setting a bad example for the States to do it. The theory seems to be that if the Government does not set a bad example it will set a worse one, and it is a question for Congress to consider very seriously—and if we are going in the wrong direction whether we had better not stop.

Mr. ALLEN. Well, now, Senator, answering the first part of your question with reference to the fact that savings banks and others should furnish this capital, and that it should seek the West, that, perhaps, is true, but they do not. That is the point. That is why the farmers are asking these things.

Now, answering the latter part of your statements, that the farming communities ought to build up this system themselves; we must say that it has not been possible to do so up to the present time at reasonable rates.

The CHAIRMAN. The farmers are fairly prosperous in many large sections of the West. I read the other day that there are more automoblies per capita in Senator Norris's State than in any other State in the United States.

Mr. ALLEN. Well, Mr. Chairman, if I may be permitted to answer that question—I do not want to go into that because that is off our line, but there are prosperous farmers naturally, as in all other lines of business, and that is outside of this proposition as I see it.

Senator NORRIS. Of course, there ought to be. If there is anybody in the world that ought to have an automobile it is a farmer. The farmer uses his for practical purposes, whereas the city fellow uses his for fun.

The CHAIRMAN. I do not object to that. I am not criticizing that. But we can not put our tariffs too high. You know the tendency is

to lower them all the time. That same purpose has got to run through all our legislation. The country is needing immense sums of money to pay current expenses, and, as I stated the other day, we have a bill pending before this committee, introduced by a Senator from New York—Senator Calder—and it has many friends, and it anticipates the organization of large building and loan associations, companies subsidized by the Government, and that their bonds shall be exempt from taxation, so that the poor mechanic can have a little home, and it is an appealing proposition, and if we continue this subsidy to the farmer beyond a reasonable extent—about $10,000, or something of that sort—what answer can we give to the millions of other poor men throughout the country who want a little home and want the money at low rates of interest?

Mr. ALLEN. Mr. Chairman, as far as I am concerned, I would not oppose the proposition of the small-home owner or the fellow that wants to get a home having tax-exempt bonds. And I will tell you why——

The CHAIRMAN. Of course, our sympathies are all with these men, but how far are we justified in going with the proposition. That is the question.

Mr. ALLEN. But if I may resume, Senator, the production of the farm is the only place where you produce new capital now—the new foodstuffs, the thing that keeps the whole machine going.

The CHAIRMAN. But the mechanic wants shoes and clothes and coal and he wants bread.

Mr. ALLEN. But he will not get bread unless the farmer produces it.

The CHAIRMAN. And he will not get shoes——

Mr. ALLEN (interposing). Unless the farmer produces the cattle.

The CHAIRMAN. And he wants a home, and the prices of such things are so high that there is great suffering in the country. Now, can we subsidize the shoemaker?

Mr. ALLEN. There will be more if you do not look after the agricultural interests and give these farms the same chance.

The CHAIRMAN. I agree with you, but the question is how far should we go. Can we extend it up to large loans? That may involve speculation. Can we go beyond the $10,000 limit, when it is stated here by Senator Gronna that the average of these loans in his State is something like $2,500?

Senator NORRIS. Mr. Allen, I think it is conceded, and I think you will concede, that there must be a line drawn somewhere.

Mr. ALLEN. The Federal board has drawn that line.

Senator NORRIS. Yes; but if we must draw a line somewhere, of course it would follow, I suppose, that honest men will disagree as to just where that line should be. That is one of the things that is in controversy here. Do you think $10,000 is too small?

Mr. ALLEN. I do.

Senator NORRIS. You think that would not do?

Mr. ALLEN. It would not form an agricultural unit in Iowa. Now, if you gentlemen would like my views upon some of these propositions you have put up as problems, I would say this. Place in the hands of your Federal Farm Loan Board full power to determine what shall be the limit as to loans in the various States, according to their needs, exactly as you place in the hands of the Federal Reserve Banking Board a similar power now. Also place in their hands the power to determine how many banks there shall be and where these banks may be located, and power to determine upon the character of the men back of the banks.

Senator NORRIS. Supposing you fixed the limitation, what would you think the limit should be for Iowa?

Mr. ALLEN. I think the limit is plenty low enough. A quarter section costs close to $40,000, and by the time a man has any equipment at all—now there is one thought that I had not put in that I want to put in, and it is this. This is not only a question of financing this country, feeding it for to-day, but it is a question of financing it and feeding it a hundred years from now. Now there is a unit upon a farm whereby you can maintain the fertility of that land. If you use a system of underfinancing, so that a man can not keep the necessary cattle and hogs, so that he may rotate his crops, you have laid the foundation for undermining your land and destroying the future prosperity of the country by close-fisted financing, and that is what close-fisted financing has done for our farms, and I can show you farms in Iowa that can not produce within 25 bushels of corn an acre what they could produce 10 years ago.

Senator NORRIS. Speaking of Iowa, I would like to have your ideas. Would that system have to be permanent?

Mr. ALLEN. Which system? As to the amount?

Senator NORRIS. Well, the subsidy, the whole business. Will there come a time in Iowa when by this assistance that is given, and say a limit of $50,000 on a farm, will there come a time when the farmer will be on his feet so he will not need any assistance at all?

Mr. ALLEN. I would judge there would.

Senator NORRIS. Now, when will it come?

Mr. ALLEN. Undoubtedly it will come as these farms become paid off. Let me suggest this: There are a few things—and I wanted to take them up in their order, as I had a schedule—but there are a few things we must look to. One is permanency of land ownership and occupancy—must we not?—under the five-year loan system, which has been in vogue up to the present time; very few men and their families have stayed upon a farm more than one generation, very few. Why? Most all of those of the West have been in debt; men have died, the estates being in debt, the widow has been compelled to sell her property. You have had that experience as a lawyer, and other lawyers have had it. Estates were cut in two because of a forced sale to settle the estate.

Under this system of loans that estate can not be jeopardized, the widow can stay on the farm if she has sons old enough to operate the land, and the boy stays on the farm and runs it. Under the old system he was forced off the farm and into the city, to become, perhaps, a drayman or something else.

Now, I maintain this: That this kind of a loan will make for permanency of land ownership. It will make for a settled rural population, which every man that is a thinking man must know is the real bulwark and foundation of our whole civilization. It is the place where we have go to go in time of stress, in the time of uprisings, in the time of strikes, to get the solid sort in order to tide us over in these perilous conditions.

Now, then, there is only one way that a man living on a farm could ever protect himself, and that was by taking out life insurance. The life insurance companies realize that. It is much cheaper for a man to take a 33-year loan on a 6 per cent basis. That insures him against his asset being wiped out. It is much easier for him to do that than it is for him to carry a 5 or a 5½ or a 6 per cent loan and pay 3 or 4 per cent to a life insurance company to turn him back less than 2½ per cent or 3 per cent on his investment. What happens? Many men are taking these loans for that very purpose. I have taken more than one myself on lands I had, simply lands I wanted to keep. I am trying to turn my lands in and get away from the conditions in northern Iowa, because I think tenantry ought to stop, and I am selling those lands off as fast as the income-tax law will permit me. I do this because tenantry has a tendency to decrease the productivity of the land, unless the tenant has hogs and cattle enough so that he can rotate the crops in the right way to get the best possible production from the land.

That is the Iowa situation. If you will permit me to finish I will not take over 3 minutes more. I will try to give you a quick shot of what I have attempted to say and what I think we have shown.

In the first place, we came before you upon the report of your committee which said that these banks, in the first place place, were making too much money. I think we have satisfied you that we are not making too much money. I think we have satisfied you that we are carrying the money from the investor to the producer at a less charge than any other system ever has done, any system that has ever been inaugurated or that can be inaugurated.

Now as to the question of the tax exemption. I think that we have been able to show to you that we are more than carrying back to the United States in value and in profit and in income much more than is given—an increased production. I can cite you hundreds of cases of where the land has been improved and tiled. I know of one 800-acre tract that has been improved and tiled and buildings put on it through the instrumentality of this law that would have lain for many years without being improved——

Senator NORRIS. Was that 800-acre tract owned by one man?

Mr. ALLEN. No; it was owned by several.

Senator GRONNA. I have been so interested in your argument, because I think it is sound, that I have refrained from interrupting you, but I agree with you that if it is impossible for these men holding large areas of land to get money at reasonable rates, then I believe it would be better for the Government, even if it be a loss to the Government, to do exactly what you want us to do; but is it not a fact that it is possible for a man who is worth $20,000 or $25,000 to get money at reasonable rates, and on the other hand is it not also true that the little fellow who is unknown has no way of getting money at a reasonable rate of interest on his farm? The small man is the one that Congress intended to take care of. I agree with you absolutely so far as your argument relates to agriculture generally. We have not done enough for agriculture; I agree with you on that.

Mr. ALLEN. Now, allow me to say this, Senator: In the first place, I can not agree with you in the statement that this act was passed for the purpose of aiding the small farmer. I think it was passed in the interest of agricultural production. It is just as necessary for the man who owns a large tract of land to improve it so as to get the greatest production out of it as it is for the little farmer to improve his land, and in the interest of producing the greatest quantity of food possible for the country it is even more important. It is just as necessary for a man in Pocahontas County, where I formerly lived, to be able to buy an Iowa farm as it is that a man in North Dakota shall open up a new farm.

Senator GRONNA. Yes; and it must be as important to the Nation, but your rates of interest have been very low.

Mr. ALLEN. Not so low. I will tell you that if it had not been for this land-bank act the farmers would have been paying 7 per cent interest.

Senator GRONNA. What is the rate now—4 to 5 per cent, is it not?

Mr. ALLEN. Oh, my, no. They are charging 6 per cent practically. Well, it costs the farmer more than 6 per cent, as a rule. On the larger loans, for instance, $125,000, they are charging 6½ per cent and a commission.

Senator GRONNA. First mortgage?

Mr. ALLEN. That is for the fellow who is willing to go out and buy the farm. If I was going to run this business, I would increase the amount and let the tenant become the actual owner of the farm, because he is the fellow who is going to keep that farm built up. As long as he rents the farm the tendency is to get all he can out of it with as little effort as possible.

Senator NORRIS. The model condition, of course, would be to have every man own the farm that he tills.

Mr. ALLEN. And that is what we want to work to, and it is as important to Iowa——

Senator NORRIS (interposing). But in a broad way, now, a system that permits such large loans, it seeems to me, has a tendency to retard rather than to bring that about.

Mr. ALLEN. Absolutely not.

Senator NORRIS. It gives the big fellow an opportunity to hold large tracts of lands operated and farmed by a lot of tenants, when, as a matter of fact, the tenants ought to own the land in smaller quantities.

Mr. ALLEN. Well, I am not sure about that. The agricultural college of our State figures that a 200-acre or 240-acre farm is the economic unit.

Senator NORRIS. In Iowa?

Mr. ALLEN. Yes; in Iowa. We have illustrations of that, for instance, in running factories; and, for instance, packing companies are able to utilize every part of the animal which they kill—even to the squeal, as the old saying is.

Senator NORRIS. I think it can be demonstrated that that is a fallacy. People generally believe that, but, as a matter of fact, I think it is shown now that these great big packing houses are bringing the country on an economic basis to the same extent it would be brought if there were hundreds more small packing houses.

Mr. ALLEN. Yes; that is so.

Senator NORRIS. Because it is an economic loss to ship live cattle when you can ship dead cattle instead. That is admitted now.

Mr. ALLEN. Yes; but we do not want to get off the track.

Senator NORRIS. But you gave that as an illustration.

Mr. ALLEN. The only trouble is that the packing company is getting all the gravy.

Senator NORRIS. Yes.

Mr. ALLEN. And they are operating an economic unit; that is, so far as the farm is concerned.

Senator NORRIS. There are not enough packing houses.

Mr. ALLEN. I agree with you on that.

Senator NORRIS. It would be more economical, more economically sound, if instead of confining it to a few big cities we would have a hundred different cities.

Mr. ALLEN. I mentioned the packing houses because that is thought to be an economic operation; that is, from the standpoint of their stockholders. I do not know anything about the packing houses and do not want to get off on that subject.

Now, I want to finish. I think we have shown that the law does produce increased production; that it is an advantage to the farmer, the producer, the man on the farm; that excess profits have not been shown; that is to say, we have disproved that element. And the limitation with reference to loans has been thoroughly taken care of by the Farm Loan Board, and, if thought wise by your body, we have no objection whatever to enlarging their powers. In fact, we think they ought to have more power, and that they should be given the power to limit the number of banks and whatever they seem to think is wise for the promotion of the purpose of this act.

Now, then, on the question of whether or not we have done the thing which the law presumed we would do, and whether we have functioned, I want to say this, that I believe you men will have to come to the conclusion that we have fully carried out the spirit and purpose of the act, that we have actually carried the money from the investor to the men that needed it on the farm, at a reasonable cost, and at as low a cost as was possible to carry it.

I think, further, you will have to admit we have been able to show increased production, and that we have given the farmers the tools with which to do the business of farming in a way they never had the opportunity to do before. We have cheapened the interest rate from a 5¾ rate—that is, the net rate of record—which carries with it in every case a commission, which would run the rate considerably over 6 to a 10½ per cent rate in many States—reduced it all to 6, so we have benefited in the matter of interest at a great rate, the question of the cost of money to the farmer.

And we have given the fellow out in the farther districts the best and the cheaper interest rates. We have also functioned in the matter of Government depositaries, which this law stated it was intended to do, and we have also assisted the Government in the matter of financing its own business at a time when practically the commercial interests and others were dumping their produce upon the markets. We have actually financed this Government to the extent of $12,700,000—not a large sum, we will admit, but a goodly sum for the number of banks that are in the business.

In addition to that we have carried and purchased for the Government at various times during the course of our organization Government certificates and other evidences of indebtedness of the Government.

So that upon every point we have functioned under the law within the spirit of the act as it was enacted by you men.

Now, to come to our position here, we were invited by you into the business. We assembled our capital. We proceeded to do business. We have made loans and have sold the bonds. We have gone out in our various communities and States to the borrowers under the assumption that we were going to be permitted to do the business for which we supposed we were intended, and we have asked the borrowers for the privilege of making their loans and furnishing the money. We have had those loans inspected by the Government appraisers appointed by the machinery of the Government and the Government's own viewers or appraisers, and they have appraised the lands. We have submitted those applications to your board at Washington here, and that board has approved the loans to the extent of $54,000,000, and we in every sense of moral obligation are bound to complete those loans between now and a reasonable time this spring.

Now, gentlemen, I want to submit that I do not believe it is in your minds and within your thoughts to do what the Smoot bill proposes to do, namely, to put us out of business, without permitting us to take care of the obligations we have assumed.

Senator GRONNA. You say $54,000,000. That includes all the 29 banks organized?

Mr. ALLEN. That was up to a certain time. We are receiving applications every day, and I do not know what those figures might be now.

Not only that, gentlemen, but we were led to believe when we went into this business that we would be permitted to loan up to 15 times our capital. Many of our banks are young and have not made over two or three thousand dollars in loans. As far as our own bank is concerned, we are about $10,000 behind up to the present time, not counting the money invested in the business.

I want to submit to you that I do not believe that it is within your hearts to pass the Smoot bill. I do not believe you thoroughly understood the situation when you recommended the bill for passage, because I know after talking with some of you and with Senator Smoot himself that it is your purpose to permit us at least to carry out the law to the extent we were led to go into the business. I believe that.

I want to be able to go back home to my directors and say to them, if I may, that this committee has ordered the recall of that bill, that you are at least willing to permit us to go ahead and finish up the business which we have on, and hope for the good of the country and the general welfare—not ourselves, because the question of who loans this money as far as the Government is concerned is a matter of little importance—but for the good of the country and its future welfare and the maintenance of the fertility of our soil and the growth and development of agriculture, we hope that you will not disturb the law as it now is further than to strengthen it. I thank you.

The CHAIRMAN. We will have to discontinue now, as it is 12 o'clock.

Mr. FINLEY. Mr. Chairman, that is all the speakers we have from our association, but I notice a couple of farmers here who are actual applicants, and we would be glad if you could hear them.

Senator GRONNA. I can not see any reason why a farmer should not be heard as well as a banker.

Senator NORRIS. I suggest that we adjourn until to-morrow morning and hear them then.

The CHAIRMAN. The committee, without objection, will adjourn until to-morrow morning at 10 o'clock.

EXEMPTION OF FEDERAL FARM LOAN BONDS FROM TAXATION.

TUESDAY, JANUARY 13, 1920.

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to adjournment. Senator George P. McLean presiding.

Present: Senators McLean (chairman), Gronna, and Norris.

Mr. FINLEY. Mr. Chairman, when we adjourned yesterday, there were two farmers here, both of whom are interested in this pending matter, and I suggested to the committee that they perhaps might want to question them, and the committee was gracious enough to extend this hearing until to-day in order to hear them. Only one of those gentlemen is here this morning, Mr. Lewis, of Virginia, and we would be glad if the committee would hear him now.

The CHAIRMAN. We will be glad to hear him.

STATEMENT OF MR. R. C. LEWIS, OF FAIRFAX, VA.

Mr. LEWIS. Mr. Chairman and gentlemen, I hope you will pardon my voice this morning, as I am rather hoarse.

I do not know that I have a very long story to tell. In fact, I did not expect to do any more than look on and listen here; but Mr. Finley suggested that, being one of the farmers interested in the pending matter, I give you, as well as I can, the farmers' viewpoint as I see it.

I am a farmer in a near-by county here in Virginia, with a farm of 650 acres of ordinary Virginia land. I had a loan on the place of $15,000——

Senator GRONNA. Before you proceed with that, let me ask you this: Do you make farming your business altogether?

Mr. LEWIS. Well, not altogether. I am an attorney, with a very small practice.

Senator GRONNA. What I would like to know is whether you are a practical farmer?

Mr. LEWIS. Yes; I was born and raised on a farm and I live on and operate my farm at the present time.

Senator GRONNA. You do not make that your business altogether, though?

Mr. LEWIS. Not altogether. I may say, however, that my larger income is from the farm than from anything else.

Senator NORRIS. Where is your office?

Mr. LEWIS. I have a little business in Fairfax and am associated with a firm here in Washington. I have only recently left the Department of Justice. I was an attorney in the Department of Justice until about a year ago. Now, I have left them permanently, and am only beginning to resume the practice which I had before I went in the office.

Senator NORRIS. Does your family live on the farm?

Mr. LEWIS. Yes; except in the winter time.

Senator NORRIS. How far from Fairfax is your farm?

Mr. LEWIS. About 6 miles from Fairfax Court House on the Warrenton Pike, going south.

Senator NORRIS. What proportion of your farm is cultivated?

Mr. LEWIS. About 400 acres cleared. We have a part of it in pasture and grass land and have a small diary. The larger part, however, is cultivated. We grow corn and wheat and have some beef cattle and hogs and a small dairy.

Senator NORRIS. Where is your market for your cattle?

Mr. LEWIS. We ship both to Baltimore and Lancaster. Lancaster is the better market. Baltimore is the worst beef market that we come in contact with.

Senator NORRIS. Do you raise hogs, too?

Mr. LEWIS. Yes, sir.

Senator NORRIS. Do you ship them to the same place?

Mr. LEWIS. Yes; we ship them to Baltimore. Baltimore is a good hog market.

Senator NORRIS. All right. You may proceed.

Mr. LEWIS. I made application, as soon as I knew the Richmond joint-stock bank was in operation, to that bank for a loan. I started to say that my present loan on the place is $15,000. I have now paid off $3,000 on it. I wanted to refund that loan and build a modern barns. I had a fire this last summer, and it burned one of my barns and part of the wheat crop while they were thrashing—the thrasher set it afire. I wanted to build a modern barn and increase my dairy.

It is practically impossible, or has been, to get a farm loan in Virginia. I have known of cases where one friend has lent to another; but, generally speaking, it is impossible to get a farm loan. But, in case you do succeed in negotiating a loan, you have to go through a bank or a mortgage-loan company, or an attorney, and pay 5 per cent commission to the party who obtains the loan; and the loan is only good for from three to five years.

Well, this loan I speak of cost me $750 commission, besides the expense of examining title and other expenses. I figured out that I would save at least one-half of 1 per cent per year by getting the loan from the joint-stock land bank. I would pay back the loan and the interest through the joint-stock land bank at a less cost by more than one-half of 1 per cent than the interest alone, the carrying charge and interest alone on the present loan. The 5 per cent commission and other expenses which are always added on a loan running only three years brings our interest in Virginia to over 7½ per cent.

Well, my application was held up. I received a letter from the bank stating that nothing could be done on any of these applications until the pending bill, or Senator Smoot's bill, was disposed of; and that is my reason for appearing here.

It has been said that there are other ways to take care of the larger farmer; and if there are such ways we are entirely unacquainted with them in the South and Southwest. I am familiar with the conditions in the Southwest, and I know we are paying all the way from 6 to 10 per cent for farm loans, in addition to commissions. In Georgia, where I have friends, they have a system of going to a bank to apply for a loan; and they will say, "We can not loan on farm lands, but there is a gentleman upstairs who may be able to accommodate you." And so through a system of that kind, this third party, who is in a position to satisfy the bank as to his financial standing, will get the money from the bank and then loan it to the farmer; and charge the farmer 10 per cent, besides other commissions, and keep him in a financial condition where he never gets out of debt. Still, all the time that is the bank's money that is being used.

Senator NORRIS. How do they do that? I would like to have you explain how the bank uses its money for that, and does not violate the law.

Mr. LEWIS. Well, the man who borrows the money from the bank, does it in the regular way; and then he lends it in turn to the farmer.

Senator NORRIS. He lends it out to the farmer at a higher rate of interest?

Mr. LEWIS. Yes. And then, of course, there is a renewal of the note when it comes due.

Senator NORRIS. Can you tell the committee whether the bank, in handling this kind of paper uses it the same as they do commercial paper, for instance, do they send that in to the Federal reserve bank and get currency on it?

Mr. LEWIS. I have no information on that, but my belief is that it is used just the same way. I do not believe it would be used any other way.

Senator NORRIS. I should think that would be a violation of the law.

The CHAIRMAN. It is probably accommodation paper, subject to renewals, I should think, and I do not believe it would be eligible to be rediscounted.

Senator NORRIS. I do not think under the law that it would, but I was wondering whether they do not do it that way just the same.

Mr. FINLEY. A good many of those banks are not in the Federal reserve.

Senator NORRIS. Was this particular bank a national bank?

Mr. LEWIS. Yes. But in this particular instance, that was before the Federal reserve system was in force. I have no personal knowledge of how that is worked, but I understand that is the way it is done, and even in my own county and adjoining counties persons who have connections with the banks always have money to lend, and it is my understanding that they have sufficient financial backing——

Senator NORRIS (interposing). Do you understand that if you get a loan that way, that that man keeps the note in his possession himself all the time?

Mr. LEWIS. No, sir; I do not. O course, I will not be able to say that positively, but my understanding is that he puts it into the bank, and when it matures he renews it.

Senator NORRIS. But I mean his 5-year note he gets from the farmer; what does he do with that?

Mr. LEWIS. He uses that as collateral to obtain further funds, I suppose.

Senator GRONNA. When you agree to pay, say, 6 per cent, as a matter of fact, do you not sign up, say, one note at 5 per cent and another for the balance at 6 per cent? I think the way it works out is in this manner—I know that is the way it works in my State, in the West: this attorney you speak of may be an agent for some insurance company, and he will make a note for whatever his profit is, and, of course, he keeps that. That is the only note he keeps. And the other note, the mortgage, he sells to this corporation, whether it be an insurance company or some other loaning corporation. That is the way those real estate firms generally operate.

Senator NORRIS. Yes; that is the way they do in the West. But the way this gentleman has outlined it, they have a different system.

Mr. LEWIS. Yes; I have heard of such a system, but I do not know that we——

Senator GRONNA (interposing). Well, in giving your security, did you sign a note for the full amount?

Mr. LEWIS. Oh, yes; I signed a note for the full amount. In my particular case——

Senator GRONNA (interposing). Just one note?

Mr. LEWIS. In my particular case.

That does not apply in the case of my loan on my farm; the loans came from one of our Virginia colleges. But, in that case, the attorney acting for them insisted on a full 5 per cent commission to him; and that was deducted out of the cash before the cash was paid over.

Senator GRONNA. So that is all it cost you; 5 per cent?

Mr. LEWIS. Five per cent commission; yes, sir.

Senator GRONNA. And that you had to pay in cash?

Mr. LEWIS. Yes; that is deducted before you get the balance of your funds.

Senator GRONNA. How long have you had this farm?

Mr. LEWIS. This particular farm I bought in 1917; the summer of 1917.

Senator GRONNA. How much did you pay for it?

Mr. LEWIS. $35,000.

Senator GRONNA. And you want to borrow how much on it?

Mr. LEWIS. I want to borrow $16,000 at the present time on it. I consider I have improved it to the extent of $5,000, and land values have increased here 50 per cent in the last three years.

Senator GRONNA. That would be a first mortgage, of course; that $16,000?

Mr. LEWIS. Yes.

Senator GRONNA. That is all that there is against the farm?

Mr. LEWIS. Yes.

Now, if the committee please, there are one or two points, it seems to me, that ought to be mentioned in connection with this argument which has been made in favor of this bill. It does not seem to me to have been very strongly stressed.

One is the argument that the joint stock land banks are not needed at the present time. It seems to me they are needed now even more than the other part of the system. What we need now in the country is more food. The small farmer in the East, who has a loan of two, or three, or four thousand dollars, has a farm that produces very little in excess of what is consumed on the farm and in the immediate neighborhood, and among the small landholders, the neighboring villages, he sells butter and eggs and a few hogs he raises and an occasional beef, and that buys his groceries and clothes, and that is about all he has to sell, while the larger farmer grows cattle and wheat and hogs, in carload lots, and he is the only man who can supply an excess of food products, and if he is given capital on which to operate, he can greatly increase the food supply of the country.

It seems to me that although this act is called a subsidy in favor of the farmer, at the present time its most important function is to increase the production of food in the country.

Senator GRONNA. Do you not think that most of the grain in the United States is raised by small farmers?

Mr. LEWIS. Taking the aggregate, I suppose it is; but that applies to the grain growing country, where their only output is grain. In the East, where we have diversified farming, the small farmer produces very little which goes off his farm.

Senator GRONNA. Do you not think, as a matter of fact, that it would increase production in that case if you were to put, say, four farmers on the farm instead of having only one there? Do you not think there would be more grain raised, and more stock raised, possibly, with four on a certain tract of land, rather than one farmer?

Mr. LEWIS. You mean to put more men on the small farms?

Senator GRONNA. I mean, suppose you divide your farm up into four parts and put four families there instead of one.

Mr. LEWIS. No. That would decrease the excess of food raised, which would be available to go to the cities, because each one of those four families would have to be supplied, and their horses and stock would have to be fed; and when you supply the stock which is necessary to support a family you have very little left to give out.

Senator NORRIS. In that case, taking the country as a whole, those four farmers would probably come from the cities, would they not, and decrease the city population to that extent, and, of course, the farming population would be increased to that extent, and would not that be a good thing?

Mr. LEWIS. Yes; it would. It would be a good thing to do, of course, in one way.

Senator GRONNA. All these people must be fed, of course, no matter where they are, whether they are on the farm or somewhere else; these same people have to be fed, wherever they are.

Senator NORRIS. And would it not be a help to the country as a whole if they fed themselves on the farm rather than lived in the city and had to be fed by somebody else?

Mr. LEWIS. Yes. I am not saying a word against the other features of the land banks; I think it is an important thing, and if we could extend that, and administer that law so as to be more attractive to the people, I think you would get more small farmers on the land. The way it has been administered in our county, the farmers are greatly disappointed.

Senator GRONNA. Well, really, is not that the important function of this law—to get the little fellow on the farm, get him away from the city and get him on the farm?

Mr. LEWIS. Yes; I regard that as one of the important functions of the law.

Senator GRONNA. And the joint-stock land banks encourage large holdings, which we never have considered beneficial, even to our States.

Mr. LEWIS. Well, I do not see how they can encourage large holdings, if it is required that the farmer live on and operate his farm; I do not see how that can encourage large holdings; I do not believe it would encourage very many men who could obtain that amount of capital.

Senator GRONNA. We will not say it is wild speculation; it is an honest business, of course, but in reality is it not speculation, at least to some extent, for a man to buy farm lands more than he can pay for and perhaps more than he can operate himself?

Mr. LEWIS. Yes, sir; that would be speculation; but I do not see that that follows from this act at all. I think there is a misapprehension as to the number of large and small farmers throughout the country. Our farms in the East, or in the southern section, at least, are small around the larger cities, but when you get back—my farm is only 20 miles back, and in that section farms run from 100 acres to 600 or 700 or 1,000 acres; and there is a small percentage of them who would want a loan of less than $10,000.

Senator GRONNA. Do you think you would have any difficulty in getting money, say on a farm the value of yours? You paid $35,000 for it in 1917, and it is probably worth more than that now, and you only want about 50 per cent of what you paid for it in the way of a loan. Now, do you think you would have any difficulty in borrowing that much money on your farm right here in the city of Washington?

Mr. LEWIS. Yes; I have tried that. You can not get a dollar on land like that in this city; you can not borrow on farms in Virginia. I have tried that not only for myself, but for others, as attorney.

The CHAIRMAN. What is the reason for that?

Mr. LEWIS. Various reasons. One reason they generally give is that they are unacquainted with the Virginia titles; they do not want to take any chance on them.

The CHAIRMAN. Has farming been very profitable in Virginia for some years, before the last two or three years, I mean?

Mr. LEWIS. No; it has not been profitable. It is a gamble to a large extent, unless you get good prices.

The CHAIRMAN. Was your farm run down when you purchased it, or did it consist of two or three farms put together?

Mr. LEWIS. No, sir.

The CHAIRMAN. Was it pretty well run down when you purchased it?

Mr. LEWIS. I can not say it was badly run down, but it was the ordinary Virginia farm lands.

The CHAIRMAN. How many head of cattle were there on it when you bought it?

Mr. LEWIS. They claim, I think, there were 100 head on it.

The CHAIRMAN. How many ought it to sustain?

Mr. LEWIS. Well, if it was in a proper state of cultivation it ought to sustain 200 beef cattle. I have, including sheep and hogs, 250 head there now.

The CHAIRMAN. You bought it expecting to make a dollar?

Mr. LEWIS. Well, I bought it because I am a lover of farming. I was raised on a farm, and I can not get on without a farm. If I sell a farm I buy another one right away.

The CHAIRMAN. That is about my fix. I enjoy farming, and I would like to make a dollar; but there are difficulties in the way.

Mr. LEWIS. There certainly are.

The CHAIRMAN. Unless you keep pretty close to the plow yourself. I fancy you expect to make a profit on this farm as well as derive a great deal of pleasure out of it?

Mr. LEWIS. Yes, sir.

The CHAIRMAN. And you say that land has appreciated in value considerably since you purchased it?

Mr. LEWIS. Yes; according to the other lands that have been sold in the county, I would say it has appreciated to a considerable extent in value.

Senator GRONNA. How much is it worth now?

Mr. LEWIS. That would be a mere estimate, of course.

Senator GRONNA. I understand that.

Mr. LEWIS. I think it has increased anywhere from 25 to 50 per cent, according to the present land values. I do not say that this rise which has been felt will continue, of course.

The CHAIRMAN. Then, as a commercial proposition, you are where you can pay a fair rate of interest, and in competition with men engaged in other lines of business, are you not? You bought this property and the land has appreciated $25 or $50 an acre, and you say there is 600 acres of it.

There is no reason why you should expect a subsidy from the Government, is there, under the circumstances?

Mr. LEWIS. Well, I think there is, sir. Practically every other line of industry is subsidized by the national-bank act.

The CHAIRMAN. What do you mean by that?

Mr. LEWIS. The national bank has a practical subsidy in its circulation, and all commercial interests are enabled to get loans through the banks, while the farmer is not.

Senator GRONNA. I do not think you can sustain that argument, that the national bank has a subsidy. You mean on the issuance of currency?

Mr. LEWIS. Yes.

Senator GRONNA. You know the national bank has to part with its own money; they have to buy their bonds before they can issue currency. I can not see how you can construe that as a subsidy.

Mr. LEWIS. It certainly amounts to that. The bank puts up its money for these bonds, but it gets interest on those bonds.

Senator GRONNA. Let me tell you there is a loss to a national bank on the issuance of currency, because often the national banks have been compelled to pay a big premium on the bonds that they have to buy, and that premium has to be charged off.

Mr. LEWIS. I am not speaking on my own knowledge of that matter, but I am speaking——

Senator GRONNA. I know that is argued, but I do not think it can be sustained.

Mr. LEWIS. You are taking issue with Mr. Vanderlip and other great bankers when you say that. They have figured it and have shown the profit the national bank takes on its circulation.

Senator GRONNA. I would be very glad to have that statement from Mr. Vanderlip.

Mr. LEWIS. Mr. Vanderlip is the author of——

Senator GRONNA (interposing). I have not been able to find that anywhere, to show that a profit is made on circulation.

Senator NORRIS. I think it would depend, whether you made a profit, on how much the bank was able to loan its money for in the community where it did business.

Mr. LEWIS. Figuring on a basis of 6 per cent, Mr. Vanderlip figures out the profits on circulation issued on the various Government bonds.

Senator GRONNA. Well, I do not want to go into that. But what difference does it make, if I start a bank with $100,000 capital, I have to part with $100,000 before I can issue that currency. Now, what difference does it make whether I loan my own money without circulation, or whether I loan it in the first instance?

Mr. LEWIS. It makes this difference: You are getting interest on your Government bonds and you are getting interest on the circulation you issue against those bonds.

Senator GRONNA. As a rule you buy 2 per cent bonds.

Mr. LEWIS. And the tax on your circulation——

Senator GRONNA. And you have to pay a large premium to get your bonds.

Mr. LEWIS. Yes; you do.

Senator NORRIS. But you only pay that once.

The CHAIRMAN. Well, if there is anything there in the way of a subsidy, it is wrong and unjustifiable; I will concede that. But you can not properly argue that we should perpetuate another wrong, to start another series of corporations on the way to increase and multiply, until we segregate another large aggregation of capital that is exempt from taxation. That is the point. It is a question not only as to whether we had better stop this proceeding but whether there may not be others that ought to be investigated and stopped.

Mr. LEWIS. Well, it seems to me that this is the only time that the farmers ever have had any help——

The CHAIRMAN. Our sympathies are all with the farmers—there is no doubt about that—but it is a question of how far we are justified in going into the Federal Treasury to grant gratuities to any particular class.

Senator GRONNA. That is the whole point.

The CHAIRMAN. If it is done in another instance, it ought to be stopped.

Mr. LEWIS. I do not say it is justified at all times——

The CHAIRMAN. We are willing to give the farmer every advantage possible, and that is why we enacted this law.

Mr. LEWIS. And before it gets in operation——

The CHAIRMAN (interposing). But it seemed to Congress at that time that the $10,000 limit was as far as we would be justified in going, and at that time it was entirely satisfactory to the agricultural interests, and we did not anticipate this application of the joint-stock land-bank law which has grown up; and these banks are increasing very rapidly. They are not making very much money now, but that could not be expected, because they are in their infancy. A national bank does not expect to make any money for the first year or two. If they can pay their overhead charges they are satisfied. And some of these banks that have been going two or three years are making a lot of money, and there is no reason why all of them will not. Our information is that they will be extremely popular and increase very rapidly, and that something ought to be done; that Congress ought to exercise discretion in this matter and not permit, as I have said, large aggregations of capital to grow up here that bear no share in the public burdens when we are needing four or five billion dollars a year to pay current expenses.

Mr. LEWIS. May I give you my thought on that line?

The CHAIRMAN. Yes; I would be glad to have it.

Mr. LEWIS. It is a fact that that will reduce the Government's revenue to that amount, 4 per cent, I believe, of our income tax from interest, and of that 4 per cent joint stock land bank bonds would make a still smaller amount, a very small amount, compared to the total. Well, I am positive, from my knowledge of farming, that if you can give the farmer with larger means enough money to operate on successfully, that he will pay to the Government in income taxes an amount greatly in excess, in increased income taxes, the losses which the Government sustains in exempting these bonds. In my own case I can see where I would——

The CHAIRMAN. But when you get there you assume that this man is going to make money?

Mr. LEWIS. Yes, you would help him make money.

The CHAIRMAN. He is getting up into the $5,000 or $10,000 a year class, if he is going to contribute much in the way of an income tax, and when he gets there, why should he expect to get his money, borrow is money, under a system that frees it from the burden of taxation?

Mr. LEWIS. Well, when he gets there, that is all you do for him; when the loan is paid off, that farmer is in a position then to——

The CHAIRMAN. Then he would keep at it; it would be a profitable speculation with him, when he gets up there.

Mr. LEWIS. I do not see how he would, if you would limit it——

The CHAIRMAN. In the East, in New England, of course they have the savings banks to go to; but they are taking advantage of the $10,000 limit under the farm loan associations to some extent; but they are encouraging all kinds of cooperative associations, sort of mutual companies, where they can segregate capital, mortgage companies, especially in the building and loan line. I see there was one organized in my State the other day to provide funds for building homes for poor mechanics, and working this out themselves on their own initiative and upon their own responsibility, taking their

chances with the farmer and the other classes, and it is a thing to encourage, it seems to me.

Mr. LEWIS. I agree with you; yes, sir.

The CHAIRMAN. And I should think that the rise in value of the land in the South—I know in the tobacco sections it is reported that they are making lots of money——

Mr. LEWIS. Well, I believe they are in tobacco and cotton, they are making much more money.

The CHAIRMAN. Do you raise tobacco?

Mr. LEWIS. No, sir; we do not raise any tobacco.

The CHAIRMAN. As soon as an agricultural section gets up where the farmers are making money, so that they can pay an income tax, I do not believe that many of them would ask for Government subsidies.

Mr. LEWIS. I do not think they would either, but if it will just help them to get to that point, I think they will be satisfied.

The CHAIRMAN. Well, that is what we have done. We have gone outside of anything the Government has ever done for anyone in this act, as it stands to-day, limiting it to the farm loan associations.

Mr. LEWIS. There is a change there, in regard to that amount, which has not been mentioned, as I remember.

At the time this act was passed, the amount necessary for a farmer to operate on was much smaller than it is at the present time.

The CHAIRMAN. Yes; but that has all resulted—that is caused by the increase in the value of farms. It requires more money, because land values have doubled and trebled and quadrupled in many sections of this country. Now, who has gotten the benefit of that rise in the value of land? Has not the farmer gotten it?

Mr. LEWIS. My experience has not been that way. My experience is it requires more money, because it costs 100 per cent more to buy your binders and your farm machinery and your stock. We have to pay now $100 for a cow that we used to get for $50.

The CHAIRMAN. True; but somebody owns this land, and it has doubled in value, and now the owner comes here and says that, because of the increase in the value of his land he has to have more accommodations, when he wants to borrow.

Mr. LEWIS. Well, that is not our reason.

The CHAIRMAN. If a farm that was worth $10,000 several years ago is to-day worth $30,000, the owner of that land has there an unearned increment of $20,000.

Mr. LEWIS. Well, if I had that increase I would be tempted to sell.

The CHAIRMAN. That is just what they are doing, and then they want to borrow money from the Government to buy more land, to do the same thing. At least, I assume that is what they are doing. That is what I would do under the same circumstances.

Mr. LEWIS. But, still, there seem to be more people in the cities.

The CHAIRMAN. As Senator Gronna said, we want to invite the people to come from the cities on to the farms, where they will produce a little surplus of food, and if you will let the big fellows control, the little fellows will not have a chance, and it is the little fellow we want to encourage, to get him back to the land.

Mr. LEWIS. I think you also ought to encourage the larger farmer, in order to increase the production of food.

The CHAIRMAN. Well, within reason, yes; but if he is making money, it seems to me he ought to be willing to pay proper rates, if he wants to borrow.

Mr. LEWIS. Conditions are such now that the people are leaving the farms. There are less farmers now than when the war started. The cities are full of people who can not get houses, but in the country there is no trouble in finding plenty of empty houses.

The CHAIRMAN. They tell me that in Senator Norris's State, for instance, that farmers have made so much money that they have gone to cities to live on their incomes, and that is the reason that the cities are congested.

We are glad to hear from you; and we do not ask these questions in any spirit of criticism or opposition. We want to do the right thing, and we have all classes to consider.

Mr. LEWIS. Thank you, sir.

Mr. FINLEY. I want to get it perfectly clear about the practice that the Senator asks about in regard to these loans through the banks. In a good many sections before this act, and to a certain extent yet, a farmer would go to a local State bank and would ask for a loan and would be told that they did not want to tie up their money that long, say from three to five years, but that a certain party we will call an agent had money to loan. So he goes over to this agent, as we will call him, and applies to him, and he loans him the money, at, say, 6 or 7 per cent, and takes the mortgage—the note and the mortgage. And then he goes back to the bank and gives his individual note, and puts either that up, or some other collateral, and takes the money back to the farmer, and his profit is taken out then and there, in sometimes a 10 per cent commission and sometimes more.

Senator GRONNA. Of course, this man could not continue that very long, because, I presume, the State banks in your country are like State banks ordinarily, that there is a limit to the amount that could be loaned, and this one man could not continue that very long.

Mr. LEWIS. Certainly; they are limited as to amount. But whenever this agent's note falls due, of course, he can renew it.

Senator GRONNA. Yes; but the aggregate amount that can be loaned to any individual in most States is not to exceed 15 and the limit is 20 per cent——

Mr. FINLEY. I am not speaking of the amount that is loaned to any individual borrower that way, but the practice.

Senator NORRIS. Well, Senator Gronna is speaking of the agent. If he had to borrow the money of the bank and comply with the banking rules he would not make many loans until the bank would say, "We can not loan you any more money; you are up to the limit."

Mr. FINLEY. Yes; there are a good many banks that he can deal through. There are certain limits, of course.

In view of the statements made by the chairman about helping the little farmer and about being willing to have a subsidy for the little farmer I would like to say one word and then ask you to hear Mr. Howard, of Des Moines. The act now is attacked as class legislation, and it seems to me if you confine it to the small producer it is even more vulnerable.

Senator GRONNA. I hardly think it is fair to say it is made for the small farmer. I think it is fair to say that there is a limit on the

amount to be had by anybody, whether he is a small farmer or a big farmer.

Mr. FINLEY. Well, that is the practical result of it, is it not? And it does seem to me that the justification for the act must rest on the broad public policy of aid to agriculture, in return for the aid of agriculture to the Nation; that this act can not be defended on any other ground. If you take the small man and help him, our sympathies are with him; but if you stop him just when he is becoming the most efficient producer, then I think you are making a mistake.

There is one point that I can not agree with Mr. Lewis about, or with the Senator, and that is in his particular case that for the purposes of this act it would be better if he had four or five families on that particular farm, rather than one good man. If you have one efficient farmer, there will be less food consumed on the farm and more food produced. Operating a larger unit, and operating it with sufficient capital to make that operation efficient in every way, as we see it, you would reach to the heart of this act.

Senator NORRIS. Now, Mr. Finley, the model condition, as I think is admitted by everybody, would be to have every man own the farm that he tills. If, however, you have the country divided up into big farms, that can not be done; that farmer has to hire help, the work has to be done by hired men, and the owner of the farm himself and his family do less in proportion to the entire amount that is done on the farm than if the farms are smaller in area. All the people must be fed, wherever they are found. If they go out on to the farms and feed themselves, it is better than if they stay in the cities and have to have their food sent in to them from the big farms. I am not finding fault with the big farmer; I would be glad to be one myself. I am not complaining of this man who has the 600-acre farm. At the same time, taking the country as a whole, I think it would be better to have two families on that farm, or four, if the condition of the soil is such that they could make money living on it, rather than to have only one.

Now, speaking of the country as a whole, taking a broad view of it, it seems to me that your contention tends toward—and the joint stock land bank contention is, first, large farms, where a lot of hired help must be had, as against the small farmer, where little help is hired and the farmers do their own work.

Mr. FINLEY. I can not agree with you for this reason: Relatively, per acre, it takes, on an efficient, well-managed farm, less labor, because it is usually a machine proposition. Our problem is not simply to feed our people. Our problem, when this act was passed—it was tending that way, because at one time in this country manufacturing interests were very small and farming predominated—and you know the national policy that was established to restore the balance. And now the tendency is the other way, and the problem is not so much to get the city man back on the farm—because nine times out of ten he will not succeed on the farm—but the problem is to keep the man on the farm. And the next problem is not only to feed the man on the farm and to feed the man in the city but, more than ever, to have an exportable surplus; and if we want efficiency in that production and it goes back, as we see it, to a large production as an aid to the entire Nation.

Now, when you speak of the speculation, and it getting too large, I will admit that $50,000 in some sections may promote that, but $50,000 is not going to prevent very much speculation in Iowa, and where the efficient farming is found.

A great deal has been said about the corn belt losing population. Has it lost any in production? Some people have moved away from that section, but they have bought more machinery, the men who have remained; and they have tilled that land, and they are operating with more machine power, less man power, and they are producing more than they ever produced before.

Now, the small man has ample opportunity in many other sections under this act, and we ask that you draw the dividing line here, help the farmer to produce, and if he is above the $10,000 class, do not stop until you reach the point where the amount is likely to produce landlordism and speculation in land.

Senator NORRIS. That is an indefinite line, of course. There can be a great difference of opinion as to where it ought to be drawn.

Mr. FINLEY. And, Senator, you can hardly draw that definitely here and fit all situations.

Senator NORRIS. I admit that. The line that would be suitable, probably, in one section of the country might not be suitable in another.

Mr. FINLEY. Exactly. I have said more than I intended to, and I would now like you to hear Mr. Howard.

STATEMENT OF MR. J. R. HOWARD, DES MOINES, IOWA.

Mr. HOWARD. My occupation is attorney at law. I was raised on a farm 20 miles south of Des Moines, Iowa, and lived there all my life until the last four years.

You might say, like all country lawyers, I am more or less familiar with farming conditions. In our State I am of the opinion that it takes more money than you have been discussing to operate a farm in a practical way. Take the northern part of Iowa. A great deal of drainage work has been done there in the last few years and is being done now. More of it is coming down into the southern part of Iowa. The drainage runs anywhere from a few dollars an acre, but as high as $1,600 and $2,000 to 40 acres, depending on the particular case. It may run from a dollar an acre to $40 an acre. And if a farmer has land of that kind, in making a loan, if the drainage tax is waived and payable in installments, the amount of that drainage tax is taken off the total valuation of the farm in order to tax the loan below that. For instance, if there is a $2,000 drainage tax and the farm $10,000, the farm would be considered worth $8,000 for loan purposes. He has that first to contend with in the northern part of Iowa in purchasing land; first the drainage tax, and that reduces the value of the land he can get the loan on.

Now, then, if he wants to operate that farm, it is the usual practice, perhaps he will get a loan of 40 per cent of the value, and then he will give a second lien of probably 15 per cent of the value of the farm, and the rest of it is probably furnished with capital that he already has, leaving him indebted somewhere from 50 to 60 or 65 per cent of the value of his farm; and then he has practically no money for operating purposes.

Now, in Iowa a man can not farm and raise very many hogs and cattle on 80 acres of land; and 80 acres of land in Iowa, on an average, is probably now worth $16,000. If he got 50 per cent on his loan, he would probably have $8,000. He would come within your class then.

Here is a publication put out by the Federal Land Bank of Houston, Tex., under date of August, 1919, in which S. A. Linear, secretary of the Federal Land Bank of Houston, says:

> I mean the Federal land bank, which is authorized to make loans for only certain specific agricultural purposes, and in amount not to exceed $10,000 to one person, are able to supply only about one-third of the loans required by and for agricultural development.

Now, gentlemen, the fact is that in Iowa during the last year, and more, if it had not been for the Federal joint-stock land bank loans farmers in Iowa would have had practically no source of supply, owing to conditions. The life insurance companies were practically out of the loan market for the last year, owing to "flue" losses, to buy Government bonds and loan them to the policyholders, and practically all of the farmers—a large percentage of the farmers—in Iowa got their loans entirely through the joint-stock land banks in Iowa. The insurance companies were unable to loan. The Connecticut Mutual was making a few small loans through Iowa and the Union Central was making a few, but there were practically none. The volume had decreased, I should judge, at least 80 per cent. And conditions such as those, which arise from time to time, make institutions like a joint-stock land bank a valuable asset to a community.

The figures, as I understand, indicate that the average loan of the joint-stock land banks is something in the neighborhood of $13,000. So that they are not trespassing, in a general way, upon the limits which the gentlemen have, except in particular instances, but they are enabled, whenever it is necessary, to furnish the capital to allow the farmer to successfully operate.

I think that to pass this Smoot bill now, or to continue the further discussion of it, is bad for business conditions in Iowa, and perhaps in Nebraska. With the amount of real estate transfers which will be had in Iowa this year, they have, lots of them, written into their contracts that they will furnish joint-stock land bank loans—they will not be able to furnish them, and the volume of insurance money, while it is returning, is still not unlimited. And so it seems to me that a discussion of this subject at this time is very bad for business conditions.

Before I left home one of the real estate dealers, who have sold $5,000,000 worth of Iowa lands last year, was in to see me three or four times in one week to know if I thought his customers were going to get the joint-stock land bank loans, and all I could tell him was simply that they would have to wait and see.

And consequently there is a great deal of uneasiness through Iowa and the adjoining States, where the joint-stock land banks are operating, by reason of this bill pending at the present time. If it was pending in the fall, when there was no spring settlement to be shortly anticipated, it would not much disturb business conditions, but right now it is actually disturbing business conditions.

If you gentlemen would pardon me for making a suggestion along this line, I think that instead of discontinuing the joint-stock land banks I would limit the amount of the loan which they make to any particular person to some specific sum.

Senator NORRIS. What would you suggest?

Mr. HOWARD. My personal idea of the matter is that $25,000 would be a reasonable average limit. I am speaking only for myself when I make that statement. And that I would limit the use of that along the line somewhat of the Federal land banks, but would give a little broader latitude in that, so that there would be no evasion or subterfuge in carrying out the law.

Senator NORRIS. Be a little more specific there. What particular limitation do you mean now?

Mr. HOWARD. Well, I mean that I would loan to a farmer, whether he occupied the land himself or any member of his immediate family occupied the farm. The farmer ought not to be driven to deed the land to his wife or deed it to his son in order to get a loan and then have it deeded back.

Senator NORRIS. Well, do you think that is legal now? I understand that has been done with the Farm Land Board with their consent, but do you not think that is a plain violation of the law?

Mr. HOWARD. That is what I was suggesting, that if you make some such limitation as this——

Senator NORRIS. In other words, you would make this violation legal by legalizing it?

Mr. HOWARD. It would not be a violation then.

Senator NORRIS. I understand; but they do it now and it is a violation of the law. So as to prevent that from violating the law you would make that act legal; is that the idea?

Mr. HOWARD. No; I would make that act for the reason that I believe it would be for the benefit of the country generally to include that in the act.

The CHAIRMAN. You mean let the husband have $25,000 and the wife $25,000 on the same property?

Mr. HOWARD. Not on the same property, but on adjoining properties, if necessary. I do not mean that, but I mean this: That if you owned 640 acres of land—four quarter-sections—and you occupied one quarter-section and three of your sons occupied each of the other quarter-sections, which is frequently the case in Iowa, that I would make you a loan on the entire 640 acres, although you did not actually reside on but one quarter-section, so long as some immediate member of your family occupied the rest of that land.

The CHAIRMAN. You would make it in one loan?

Mr. HOWARD. No; I would make it in separate loans.

The CHAIRMAN. So, if you should fix the limit as you suggest, he would be able to get $100,000?

Mr. HOWARD. Yes, sir.

The CHAIRMAN. Do you think the Government of the United States ought to help any man who owns 640 acres of Iowa land by giving him a tax-free bond at this time, when we need money for the expenses of the Government so badly?

Mr. HOWARD. As Mr. Finley suggested, I believe it is not the dragging of the people back to the land but the keeping of the boy on the farm that counts. If you let the boy get away to the city, it is

not very often like this young gentleman that just preceded me—because he wants to get back to the farm—but if his folks are not able to buy the adjoining piece of land and put him on the farm and keep him there, so he can work in a profitable way, he will not stay there; but if they are able to do that, of course he will be a farmer, and he will not be a clerk in the city.

Senator GRONNA. What is the situation in Iowa? Has the population increased or decreased in recent years?

Mr. HOWARD. I am under the impression that the population has slightly decreased.

Senator GRONNA. How about the holdings of land? Have land holdings increased or decreased?

Mr. HOWARD. To a great extent, I would say that I do not believe there has been a great deal of change. In the southern part of the State I think the holdings have increased somewhat, but in the northern part of the State, where it has been more newly developed, enough new people have gone into those districts which have been properly drained so that I think the average is about the same.

Senator GRONNA. I have understood that the holdings had increased.

Mr. HOWARD. I think it is so in the southern part of the State.

I think that is all I have to say, gentlemen.

The CHAIRMAN. Land values have gone up very rapidly in Iowa recently, have they not?

Mr. HOWARD. They have, sir.

The CHAIRMAN. And has the number of farms increased, or has the tendency been to concentrate?

Mr. HOWARD. I practically answered that question in reply to one of Senator Norris's questions.

In the southern part of the State the size of the holdings has increased, but in the northern part of the State I think they have decreased.

The CHAIRMAN. You say you are an attorney?

Mr. HOWARD. Yes, sir.

The CHAIRMAN. Are you counsel for loan associations there?

Mr. HOWARD. I am the Government examiner of titles for three of the joint-stock land banks that operate in Des Moines, and more or less familiar with their business and applications that come in.

The CHAIRMAN. Then you are in a way counsel for the joint-stock land bank of Des Moines?

Mr. HOWARD. There are two joint-stock land banks in Des Moines, the First Joint Stock Land Bank of Chicago, through St. Louis. I, or the firm with which I am associated, am examiner of title for the First Joint Stock Land Bank of Chicago; and, through the Federal Land Bank of Omaha, examiner of titles for the Des Moines Joint Stock Land Bank and the Ceneral Iowa Joint Stock Land Bank.

The CHAIRMAN. Then you are counsel or agent for three of the joint-stock land banks?

Mr. HOWARD. Yes, sir.

The CHAIRMAN. That is all.

Mr. FINLEY. Gentlemen of the committee, we have no further testimony.

Mr. RAMSEY. Gentlemen, Senator McLean on Saturday asked a question which in the rush of things was overlooked, I think, and it was a very pertinent question and should have been answered.

He asked why the joint-stock land banks could not loan at 5½ per cent as well as the Federal land banks. The reason is that the Federal land banks are allowed to loan up to 20 times their capital, while the joint-stock land banks are only allowed to loan 15 times their capital. Therefore, you see, with the same overhead expense a Federal land bank with $250,000 capital can loan $5,000,000, while the joint-stock land bank can loan but $3,750,000; and, as the profit on the busienss is 1 per cent per anum between the rate at which the bonds are sold and the rate which the mortgages bear, there is an excess earnings to the Federal land bank of the same capital of $12,500. And, in addition to that, the joint-stock land banks pay State and local taxes upon their capital, which, in the case of a $250,000 bank amounts to about $6,000, while the Federal land banks pay no taxes upon their capital stock.

So that there is a $6,000 margin added to $12,500, which makes a difference of $18,500 in the earnings between the two systems, because of the manner in which the law is written.

We are not complaining of the manner in which the law is written, but that is the reason why we can not loan quite as well as they can.

The CHAIRMAN. Is not that greatly offset by the fact that the joint-stock land banks make larger loans and require much less help? I know that is true with reference to the successful bank.

Mr. RAMSEY. Ordinarily, I would say that it would work out that way.

The CHAIRMAN. Larger loans and can carry much larger capital.

Mr. RAMSEY. They can hardly carry capital, but they do make larger loans.

The CHAIRMAN. There is no limit to the capital they can carry?

Mr. RAMSEY. That is true.

The CHAIRMAN. Take a $2,000,000 bank, with $25,000,000 of bonds, if the loans are $50,000 each, the overhead charges would not be as much as a smaller bank with a quarter of a million and the loans averaging a thousand dollars each?

Mr. RAMSEY. Yes.

The CHAIRMAN. That is the trouble with your argument.

Mr. RAMSEY. Of course, you can not take one large individual bank as an example. The most of these banks are small banks that are eking out a little profit. In the United States we have the National City Bank of New York, which is making millions of dollars, but that is not to be compared with other banks——

The CHAIRMAN. But you are just starting.

Mr. RAMSEY. Yes.

The CHAIRMAN. And a national bank has to go through that same experience?

Mr. RAMSEY. Yes; but I mean in the case of the banks to-day that have been in existence for 50 years; most of those banks are making only a small profit, while we have the great National City Bank making a tremendous profit.

The CHAIRMAN. Fifty years from now I would rather have the stock of the Chicago Joint Stock Land Bank than the stock of the

National City Bank of New York, if the Chicago bank is permitted to go on under this law.

Mr. RAMSEY. With reference to the defense of the Federal Farm Loan Board, I wish to say that they do not at present permit the making of loans to members of families in order to bring about a large loan. At first, as in the beginning of all enterprises, certain little things will pass by that will soon be caught in the working out of the details of the business.

There was mentioned here on Saturday the largest loan made by any joint-stock land bank—$160,000. It was made in Illinois and was a loan made to a man who has eight sons. Those farms practically belong to those eight sons, save for the detail of the transfer, and it was so represented to the bank in Chicago that made the loan and so represented to the authorities passing upon the loan. The farms should have been divided amongst the eight sons at the time, but they were not.

However, that instance and others of large loans caused the Federal Farm Loan Board to make rulings that are as arbitrary and insistent and that are as strict as you can imagine to prevent that sort of thing being done any more, and I say that in defense of their practice.

Senator GRONNA. As I understand it, I do not think that criticism should apply to the Federal land banks.

Senator NORRIS. What criticism?

Senator GRONNA. That is, permitting the families to do that.

Senator NORRIS. Oh, yes.

Senator GRONNA. It does.

Senator NORRIS. Oh, yes. I have only heard one side of it, but I have known of a good many instances where a man deeds one part of a farm to a boy and another part of the farm to one of his other children, and all get what they can, and then when the deeds are recorded, they all deed back the land to the old man.

Senator GRONNA. I took that up with the president of the St. Paul bank and he said under no consideration would he permit that to be done.

Senator NORRIS. I think that is a plain violation of the law.

Senator GRONNA. I agree with you.

Senator NORRIS. And they not only do that, but I have a copy in my office of a contract where they get around the law, that provides that the man who borrows the money should actually cultivate the land. To obviate that (I am told that it has been a suggestion of the bank), he makes what they call a lease; that is, it is practically a lease, but they call it a contract. He enters into a written contract with the tenant that this man shall work for him and farm his land and get a certain share of the products from the land. It is in all particulars a lease, but they call it a contract.

That is to avoid that provision of the law that requires the man that gets the money to cultivate the land upon which he borrows the money.

But I understand they have made a great many loans to men who have not lived on the land for years and do not pretend to live on it now. But they say you can do that by getting around the law in this way.

Senator GRONNA. Of course that is a violation of the law.

Senator NORRIS. That has not any particular bearing here; I am not charging that against the joint-stock land banks. They are not limited in that way, but we know when we passed that law that was one of the material considerations; we wanted to loan the money to actual cultivators of the land and not to speculators.

Mr. RAMSEY. That is not being done now.

Senator NORRIS. Have they quit it?

Mr. RAMSEY. Absolutely.

Mr. FINLEY. The board made them do it.

Senator NORRIS. Why did they quit it?

Mr. RAMSEY. The Federal board took control of it, and I hope you will amend this law to the effect that the Farm Loan Board will have even greater control of the joint-stock land banks. I hope that you will arrange that the Federal board may control the numbers of the banks and their location throughout the country, the same as the Comptroller of the Currency has control of the national banks, and that you will limit their size. There is a need for the joint-stock land banks, because of the greater unit of farm values in Missouri and Illinois and Wisconsin, where a 160-acre farm is worth $48,000, and $10,000 is not enough; they should have a larger limit.

Mr. FINLEY. May I add, in conclusion, to what Mr. Ramsey has said and to fix the law for both banks, with whatever limitations you want to put in the law, and additional authority, if necessary, to the Farm Loan Board, to see that both of them do apply their energies and their capital to the one main object of this act, increased agricultural production, and cut out, as much as possible, speculation or landlordism in any way you can. We can live on that basis and make a legitimate profit, if there are not too many of them, and that is what we really want to be able to do.

We are not here pleading as philanthropists. We expected to make a legitimate profit, but we expected to make it within the spirit and letter of the law, which we conceive to have been passed in the interest of the Nation as a whole—to help its agricultural production.

I want to thank the committee on behalf of the association for their courtesy and fairness and their generosity personally in the matter of time allowed us, and to repeat that we request you recall that bill for further consideration; and then, if the association as a whole, or any member thereof, can be of any service to you, we would be glad if you would call on us.

Senator GRONNA. I think it was understood the other day that the bill would be recalled.

The CHAIRMAN. Well, it was suggested that that be done. It is not necessary; there is no necessity for recalling the bill. A substitute can be presented at any time by the committee, I suppose.

Senator GRONNA. My only thought is this: That as long as that bill is on the calendar it is a sort of a scare to the people throughout the country.

The CHAIRMAN. Yes; but this question is also before the Supreme Court of the United States, Senator.

Senator GRONNA. Yes; that is true.

The CHAIRMAN. If the law is under consideration the bill may as well stay on the calendar; there is no reason urging the recall or

the retention of the bill; it makes no difference in the final disposition of the matter whether the bill stays on the calendar or not.

Mr. FINLEY. Then, if there is not, may we ask that you do recall it, because the people do not understand it?

The CHAIRMAN. Personally, I have felt that the bill being on the calendar is a wholesome warning. If it had to pass ultimately, I think we would discourage rather than encourage a further extension of these loans.

Mr. FINLEY. May I suggest that, as far as the multiplication of these banks is concerned, we have made, I think, a complete answer in regard to the misinformation that went out, no matter how it originated. As a matter of fact, it went out originally from the floor of the Senate, as to what enormous profits these banks were making, and I think now you are satisfied that that is incorrect.

The CHAIRMAN. I do not want to see any more of these banks formed until Congress reaches a conclusion on this subject, and, in the interest of the banks themselves, it would be unwise to withdraw that bill, if it was going to encourage the organization of more banks.

Senator GRONNA. That would depend on the board, would it not?

Mr. FINLEY. No; they have no authority.

The CHAIRMAN. That is the trouble. There are a great many applications pending, and it seems to me fairer to all parties to let this bill stay where it is, as a warning that Congress may pass the bill, and withdrawal of the bill might encourage these pending corporations to go ahead and organize, and I think that would be unfair and unwise.

Mr. FINLEY. I think I can give you some important information on that. I did not finish my point. That when the facts are known as to the long time it takes to get one of these banks to pay dividends, and that they can not exceed a gross income of 21 per cent, there will not be as many want to go into it. As a matter of fact, one charter has already been surrendered, and I personally know of one or two others that will be surrendered. So I do not think there is any danger of that kind, as long as the suit is pending in the Supreme Court.

The CHAIRMAN. Well, that will be a matter for the committee to decide.

Mr. RAMSEY. May I make this as a plea?

The case is before the Supreme Court. We, all of us, acting on the authority which we presumed was conferred upon us by Congress, have permitted a number of farmers to make applications for loans. We have the applications signed and sworn to and appraised and passed upon in our various banks. The people want to get the money if they can. We are absolutely estopped. Now, if the Supreme Court decides favorably, then we can sell sufficient bonds. We can not sell them now; the market is very poor. But, in case the court decides favorably to us, we can sell sufficient bonds to provide for those applications. There are not very many applications before the board now. Everybody is practically scared. There are not going to be any more banks established until some definite conclusion is reached by Congress, so that the withdrawal of this bill would simply have the effect of clearing the field so we could sell a few bonds. We can not sell many—5,000,000 or 10,000,000, probably, which would be enough to take care of a large share of the business that is pending, which these gentlemen made loan applications for in good faith. But we are physically unable to take care of them now.

The CHAIRMAN. There will be nothing to interfere with your completing those loans if the Supreme Court decides the case in your favor.

Mr. RAMSEY And we can not sell bonds so long as a bill of this kind is on the calendar.

The CHAIRMAN. But if we withdrew it, and then finally passed it, we would be accused of acting in bad faith, because you would assume that the withdrawal of the bill would mean a continuation of the present system. And, for that reason, I think there are good arguments in favor of leaving the bill where it is.

Mr. RAMSEY. I agree with you, but if you withdrew this bill, then, after you passed the same bill it would be open to them. But I feel sure you will take some action to relieve us.

The CHAIRMAN. Undoubtedly there would be some provision providing for a liquidation that would save you people harmless.

Senator GRONNA. I would not vote for the same bill unless there is an undertstanding that these people that have gone into these banks will be protected, so far as the loans they have made are concerned.

Mr. RAMSEY. If you can recall this bill it is in the minds of the people connected with these joint-stock land banks that that would take care of these people who have made application to whom you have promised the money.

The CHAIRMAN. The committee is adjourned, subject to the call of the Chair.

(Thereupon, at 11.40 a. m., the committee adjourned sine die.)

(The following communication from the Farm Mortgage Bankers' Association of America was received subsequent to the close of the hearing and by order of the chairman was ordered printed in full, as follows:)

CHICAGO, *March 9, 1920.*

Hon. GEORGE P. MCLEAN,
Chairman Committee on Banking and Currency,
United States Senate.

DEAR SIR: In a letter written to your committee February 17, 1920, Farm Loan Commissioner Norris showed undisguised alarm for the future of the Federal land banks. The inference is plain that he fears they will be crowded out of business by the more successfully managed joint-stock land banks and that the future issue of large amounts of tax-exempt land-bank bonds will reduce the national revenue.

The last reports of the Federal Farm Loan Board show abundant cause for the alarm of Mr. Norris and his associates.

From organization to January 31, 1920, the Federal land banks had closed loans to the amount of $318,445,231, while the report to the same date shows $720,166,535 applied for. Including the loans rejected as undesirable that leaves applicants for an amount of over $400,000,000 waiting for money. No wonder there is complaint of slow delivery and inefficient service.

The annual report of the Federal Farm Loan Board shows that the business of the Spokane Federal Land Bank fell off $2,820,765 for the year ending November 30, 1919, as compared with the previous year. Four other banks also showed a reduction in business. The other losing banks are Berkeley, Springfield, St. Paul, and New Orleans.

With this condition of affairs existing, with only 30 joint-stock land banks competing for the business, but expecting a hundred or more new ones to be organized this year, the friends of the Federal land banks deem it desirable to take away from joint-stock land banks the tax exemption subsidy they now enjoy. This would not eliminate the 30 now in existence, but it would discourage the organization of additional competitors.

From a political standpoint the tax exemption of farm-loan bonds has been a temporary cause of popularity, but the policy wanes in public favor as the economic effects are proven by experience.

That Congress created a dangerous precedent in thus curtailing National and State revenues is now glaringly apparent.

The bill by Senator Smoot, S. 3109, is intended to partially correct this legislative error by subjecting all future issues of joint stock land bank bonds to taxation.

A fair and comprehensive discussion of the need for the passage of the Smoot bill of necessity involves some general reference to the tax exemption of Federal land bank bonds. These banks were created for similar purposes. They enjoy the same exemptions and are operated under the supervision of the same governmental authority.

The dual system of subsidized loan agencies began business under Government patronage about three years ago, indorsed by both leading political parties, and enjoying the good will of a public which had been educated to expect great reforms and public benefactions.

American taxpayers, economists, and financiers who have investigated this subject now favor the repeal of the tax-exemption privilege applying to the bonds of Federal land banks as well as joint stock land banks. Both ought to stand or fall on their own merits without subsidies.

The repeal of the tax exemption of joint stock land bonds is especially desirable, among which the more important reasons are:

1. This exemption is a Federal infringement on the rights of States, forbidding the States to tax securities produced by one class of privately owned corporations, while all others are subject to State taxation.
2. It tends to develop a specially favored kind of corporation that will wield great political power dangerous to the public welfare.
3. Instead of reducing farm tenancy and landlordism, the system tends to consolidate and enlarge farm holdings.
4. It does not increase agricultural production and the indirect effects detrimental to agricultural prosperity are greater than the benefits.
5. It has not reduced rates of interest in the reliable farming localities where the bulk of the loans have been made, and the new banks in hazardous territory have not as yet been established on a paying basis.
6. Devised to benefit the borrower, the principal advantages of tax exemption are conferred upon the rich investor in the tax-free bonds.
7. Instead of releasing funds for general investment, tax exemption will cause withdrawal of bank deposits and lock them up for long periods in tax-exempt bonds.
8. Loss of revenue through tax exemption will necessitate the creation of new forms of taxation, like sales taxes, land taxes, and consumption taxes.
9. As the issuing of 1 loan of $25,000 will consume funds sufficient to furnish 10 loans of $2,500 each, many deserving applicants for small loans will be compelled to go unsatisfied if this special privilege is continued for large loans.
10. The output of large amounts of tax-exempt bonds will be a material factor in still further depreciating the price of Liberty bonds, on which purchasers have already sustained a loss of $1,250,000,000.
11. The entire tax-exemption system is based upon the hypothesis that the benefit to the investor is all passed on to the borrower. This theory was taught in schools and universities about the middle of the last century. Experience and the investigations of economists have conclusively shown that under a graduated income tax this is absolutely impossible. Under a flat rate, or proportional property tax, only a part of the benefit is actually transmitted to the borrower. No reputable college or university now teaches that the benefits of tax exemption are all passed on to the borrower under a graduated system of income taxes.

When the rural credit system was under consideration by Congress it was not opposed by farm mortgage bankers and they do not now oppose the rural credit system except in the matter of the tax-exemption subsidy.

Five of the Federal land banks in 1918 touched the high point in the amount of loans made, and started on the down grade in 1919. In all probability the other seven passed the turning point in 1919 and will do a reduced business in 1920. There will be no question about this retrogressive movement if the joint-stock land banks are upheld by Congress and the courts, and a hundred more are organized.

Because of superior service and reasonable rates, farm mortgage bankers made a larger aggregate amount of loans in 1919 than in any previous year. Their current rates are as reasonable as the general money market and the hazards of the loaning fields will permit. Borrowers and lenders have by them been brought together at a margin for expense not greater than the cost of doing business and the value of the service. Competition and supply and demand are the natural regulators of interest rates.

It is therefore plainly apparent that it is not because of business rivalry that tax exemption of bonds is opposed. It is because of the danger which threatens all taxpayers and all borrowers on taxable securities, as a result of this tax-exemption class legislation, that the Farm Mortgage Bankers' Association of America is leading the educational campaign against tax exemption of bonds.

Economists connected with the Farm Mortgage Bankers' Association have given the subject more careful study than those of any other line of business, and their findings are contributed for the public good.

Farm owners, merchants, manufacturers, stockholders in transportation companies, and industrial enterprises of all kinds, as well as owners of city property, will be as active as farm mortgage bankers in opposing tax exemption after they have investigated the subject thoroughly.

In behalf of 110,000,000 taxpayers and consumers of the United States, the undersigned herewith offer for your consideration a general discussion of the merits of S. 3109.

Respectfully submitted.

FARM MORTGAGE BANKERS' ASSOCIATION OF AMERICA.

GENERAL DISCUSSION OF S. 3109.

MISUNDERSTANDING ABOUT SMOOT BILL.

The opponents of Senator Smoot's bill (S. 3109) appear to have a misunderstanding of the purpose of the bill. While technically it is intended to amend the Federal farm loan act to make the bonds of joint-stock land banks subject to taxation, in effect it really would restore the Federal farm loan act more nearly to its condition when originally passed three years ago.

For several years when the Federal farm loan act was before Congress there was no Federal income tax. When the law was enacted in 1916, the normal income tax was only 2 per cent, and the maximum surtax only 13 per cent. Exemption from taxation at that time meant very little.

The revenue laws have since been amended by adding heavier surtaxes, until at the present time the wealthier individuals of the United States are subject in part to an income tax of 73 per cent, and for the year 1918 were subject to an income tax as high as 77 per cent.

The difference between 73 per cent, the present highest income tax, and 2 per cent, the normal rate that prevailed in 1916, or 71 per cent, represents subsidies now allowed to the wealthiest investors in joint-stock land bank bonds and Federal land bank bonds, in addition to the privileges originally granted in 1916. This enormous subsidy to these investors was not contemplated by the framers of the Federal farm loan act. It has not been brought about by any amendment to that law. It has been caused by the enactment of emergency revenue laws imposing heavy taxes to pay the enormous national war debt now nearly thirty times larger than when the Federal farm loan act was enacted.

The purpose of Senator Smoot's bill (S. 3109) is to restore the equilibrium which existed when the farm loan act was enacted.

BENEFITS CLAIMED ARE NOT REALIZED.

With high-sounding phrases, which have no substantial basis in fact, the opponents of this bill declare, first, that the tax exemption of joint stock land-bank bonds is of great benefit to agriculture.

Second, that this tax exemption increases agricultural production.

Third, that it enables the landless to obtain land.

Fourth, that it reduces farm tenancy and in numerous ways promotes the general welfare.

The opponents of tax exemption deny the correctness of substantially all of these claims.

It is now admitted by all that this exemption is a subsidy granted by the Government to bondholders and to a small minority of farmers at the expense of the general taxpayer.

The agricultural industry is the greatest in the United States. Its assets are approximately $75,000,000,000, and the annual production in 1919 was nearly $25,000,000,000. There are over 7,000,000 farms in this country. Less than 2 per cent of the farmers have participated in this farm loan tax-exemption subsidy. Therefore, 98 per cent have been compelled to pay a large share of the expense necessary to subsidize less than 2 per cent, and these beneficiaries in the long run will lose through increased expenses caused by higher taxes.

PROFITS GO TO RICH.

The report of the Senate committee states that the natural tendency of tax-exempt securities is to accumulate in the possession of the large taxpayers who will profiteer through tax exemption.

The best-informed witnesses for the joint-stock land banks supported this statement. There are no reliable authorities that dispute this self-evident fact. These large taxpayers are the ones receiving tax-exemption benefits running as high as 73 per cent.

Witnesses for the joint-stock land banks make many arguments for a tax-exemption subsidy which are inconsistent. It is asserted that the subsidy is required to increase the production of food. The law was enacted for the special benefit of farmers. Farmers sell food products. The high prices of products sold by the farmers have made the last few years especially prosperous. To reduce the prices of farm products would decrease the farmers' prosperity.

When the garment makers or glass manufacturers or the coal miners find their business in a depressed condition Congress never attempts to increase the prosperity of these workers by appropriating money from the Federal Treasury, either directly or indirectly, to create new clothing factories or glass factories or to open new coal mines to compete with the workers in the already established mines. If such legislation were suggested, the well-organized labor unions would at once make themselves heard at the doors of Congress.

If it is desirable to invite more money to invest in the agricultural industry to increase production and reduce the prices of grain, cattle, and hogs in order to aid the consumers of the cities, then there may be some consistency in the argument; but it ought not to be claimed that reduced prices of farm products would aid the farmer.

Recent years have been the most prosperous ever known to American agriculture. This prosperity has increased as the population of the cities has increased. One farm family in 1916 had two other families as customers for the surplus food it produced, while in 1880 each farm family was called upon only to produce food for itself and part of one other family. Conditions in 1920 have made still greater demands for the surplus produced by each farm family.

High prices are the most powerful stimulants to production, and the prosperity of the farmer depends upon the margin of profit between the cost of production and the selling price of his grain and live stock.

LOSS TO 98 PER CENT OF FARMERS.

The Federal census shows only about one-third of the farms of the country to be mortgaged. The unmortgaged farms can not be helped by any subsidy to the owners of mortgaged farms, but their owners are obliged to pay increased taxes to help pay that subsidy. This tax subsidy for a very slight temporary benefit to less than 2 per cent of the farmers causes a direct loss to the other 98 per cent. So far as the 98 per cent of the farmers are concerned, they would be benefited more by a subsidy to village merchants and country storekeepers if such a subsidy would cheapen their merchandise, because these merchants sell to all of the farmers and not simply to those who have borrowed money under the Federal farm-loan act.

During the war extravagant prices were charged for manufacturing munitions furnished to the Government on a cost-plus basis. The factory which received $10 profit on an article costing $100 was able to swell its profit to $25 by increasing the expense of manufacturing the same article to $250. This wasteful business management, thus adding to the profits of the manufacturer at the cost of an enormous loss to the National Treasury, now universally condemned, was no worse than the heavy exemptions allowed large bondholders for the purpose of granting trivial benefits to a small percentage of farmers.

It is claimed by the joint-stock land banks that they are able to furnish farm loans at a rate averaging 1 per cent cheaper than the rate charged by private loan companies who are not subsidized by the Government. Investigation shows this statement to be untrue, because in the States of Illinois and Iowa, where the larger part of the joint-stock land bank loans have been made, their rate is higher than the regular rate paid to private investors by reliable borrowers.

Taking into consideration the lower rates granted by the joint-stock land banks in some of the high-rate territory where only a few loans have been made, the average reduction might possibly run one-half of 1 per cent. In order to benefit the farmer one-half of 1 per cent on his investment, the Government is obliged to now grant complete tax exemption of bonds to millionaires who might otherwise be subject to an income tax of over 70 per cent. This gives to the investor in the bonds a benefit six or eight times greater than the benefit claimed for the farmer. The benefit to the millionaire is a loss to the National Treasury, and the loss to the National Treasury is a tax burden shifted upon all other taxpayers of the country.

TAX-EXEMPTION BENEFITS NOT PASSED TO BORROWER.

The arguments in favor of tax exemption are based upon a financial fallacy. It is claimed that the benefits to the investor are passed on to the borrower. The best economists of the country have pronounced that claim fallacious, even when it applies to a proportional property tax, as it is never possible to pass all of the benefits on to the borrower. This doctrine is plainly erroneous when applied to a graduated income tax, because a tax-exempt bond, when owned by a small investor, is not subject to any income tax; therefore there is no benefit to pass on to the borrower. After the small investor sells his bond to a person with an income subject to a high rate of tax, there can then be no possible way to pass any benefit back to the borrower.

The weakness of this argument for tax exemption is very clearly explained in a paper published by Washington University, of St. Louis, prepared by Prof. George E. Putnam, of the school of economics of that institution. Prof. Putnam says:

"By far the most conspicuous evil of tax exemption is that it completely upsets the purpose of graduated taxes. In the first place, it enables those with property incomes to escape the burden of progressive rates, thereby causing the burden to be shifted to others less able to pay. Suppose, for example, that a married person without dependent children receives a yearly net income of $50,000 (after paying State taxes) from real estate valued at $1,000,000. Under the revenue act of 1918 his Federal income tax would be $11,030. If he converted his real estate into 5 per cent Federal farm loan bonds at par, his property and income taxes thereafter would be nothing, his net income would in no way be diminished, while the man who received the same income from personal services would continue to pay a tax of $11,030. The ability of the former would still be greater, but only the latter would be taxable.

"The injustice of tax exemption, however, does not stop here. It not only gives rise to unwarranted discrimination in favor of property owners, as opposed to wage earners, but it also confers a much greater favor upon the wealthy classes than upon the investor in moderate circumstances. Under the Federal income-tax law, for instance, a married person without dependent children is subject to a flat tax rate of 2 per cent if his net annual income is $3,000, 22.06 per cent if his net income is $50,000, and 70.30 per cent if his income amounts to $1,000,000. The yearly saving in taxes that each of these classes might make through the purchase of a $1,000 farm loan bond yielding 5 per cent amounts to $1, $11.30, and $33.15, respectively. If the same bond were subject to taxation, the net yield to these investors after paying income taxes would be $4.90 per cent, 3.90 per cent, and 1.48 per cent, respectively. Or,

to put it another way, a 5 per cent nontaxable bond is the exact mathematical equivalent of a taxable bond yielding 5.10 per cent if the bondholder has an income of $3,000, 6.41 per cent if his income is $50,000, and 16.83 per cent if his income is $1,000,000. These and other significant facts relative to the unequal benefits conferred by tax exemption are shown in the following table:

Net income of married person without dependent children.	Total tax.	Tax rate on whole income.	Net yield of nontaxable 5 per cent bonds.	Net yield of taxable 5 per cent bonds.	Rate of interest required on taxable securities to yield 5 per cent.	Annual value of tax exemption on $1,000 5 per cent bond (annual loss to Federal Government).	Present value of tax exemption on $1,000 5 per cent bond maturing in 20 years (present value of total loss to Federal Government).
		Per cent.	*Per cent.*	*Per cent.*	*Per cent.*		
$3,000	$60	2.00	5	4.90	5.10	$1.00	$12.46
$10,000	830	8.30	5	4.58	5.45	4.15	51.72
$20,000	2,630	13.50	5	4.32	5.78	6.57	81.87
$50,000	11,030	22.06	5	3.90	6.41	11.30	140.82
$100,000	35,030	35.03	5	3.25	7.69	17.51	218.21
$200,000	101,030	50.50	5	2.47	10.10	25.25	314.66
$500,000	323,030	64.60	5	1.77	14.12	32.30	402.52
$1,000,000	703,030	70.30	5	1.48	16.83	35.15	438.03

"Obviously, the small investor has little to gain from the purchase of tax-exempt securities. If his income is exactly $3,000, it is immaterial whether he buys a 5 per cent taxable bond at par or a 5 per cent nontaxable bond, maturing in 20 years, at 101.24. The annual value of the tax exemption privilege on his farm loan bond is only $1, and the capitalized value $12.46. But with every material addition to his income the incentive to buy tax-exempt bonds becomes greater. In the case of those having annual incomes of $1,000,000 the annual value of tax exemption on a $1,000 farm loan bond bearing 5 per cent is $35.15, and the capitalized value of these exemptions $438.03.

"If the supply of tax-exempt securities should be materially diminished so that the available number was insufficient to satisfy the needs of the very wealthiest classes, the price of 5 per cent farm loan bonds would tend to rise to 143.80; that is, to a premium representing the highest capitalized value of the tax-exemption privilege. Owing to the large volume of municipal and Federal bonds outstanding, bonds exempt in whole or in part from progressive income taxes, it is unnecessary for the recipients of large incomes to pay a price for tax-exempt bonds that anywhere near covers the capitalized value of the tax-exemption privilege. Thus far, 5 per cent Federal farm loan bonds have not sold above 108, although they have sold steadily above par."

"It is for this reason that the main argument in favor of exempting Government bonds from the income tax breaks down. Under a system of proportional taxation it is probably true that tax-exempt bonds of the Federal Government would sell at a premium corresponding roughly to the capitalized value of tax exemption, and thus yield a greater return to the Government. But under a system of progressive taxes the price of the bonds is not enhanced by the capitalized value of the exemptions, and therefore the amount that the Government can gain from a lower rate of interest will not be so great as the loss in revenue from the income tax."

OWNERS OF LIBERTY BONDS SUSTAIN LOSSES.

The bonds of joint stock land banks are obligations of privately owned corporations to private investors who furnish the money for the privately owned joint stock land banks to loan to farmers and real estate speculators for private purposes. They bear an interest rate of 5 per cent and by a fiction of Congress are termed "instrumentalities of the United States Government." They come in direct competition with Liberty bonds of the United States, which bear lower rates of interest or are not endowed with the same exemption privileges. As a natural result Liberty bonds have steadily depreciated in price below par.

At the present time it is estimated that the original investors in Liberty bonds have suffered a loss of $1,250,000,000 through a shrinkage, a part of which is caused by competition with these farm loan bonds yielding a higher income and having greater tax-emption privileges. During the months of January and February some issues of Liberty bonds were sold at less than 90. The Wall Street Journal of March 2 said:

"The outstanding feature in the bond market last week was extreme weakness of Government war loans, particularly Liberty loan 3½s, which declined sharply to new low record, 94. While the balance of Liberty loan bonds was soft, they did not reach former low levels, with the exception of second 4s, second loan, which touched 89.40, a new low.

"Weakness in Liberty loan 3½ per cent tax-exempt bonds had a sympathetic effect on municipals. The market was dull and prices about at their lowest level."

It is true that only a small amount of farm-loan bonds are in the market compared with the vast amount of Liberty bonds, but there are in the United States approximately $4,500,000,000 of farm mortgages. The public expects that if these tax-exemption subsidies are continued a very large portion of these farm mortgages will ultimately be financed by tax-exempt farm-loan bonds. If the tax-exempt farm-loan bonds are permitted to continue, then tax-free city property real estate bonds will soon be in the market, after Federal home loan banks are created.

The dangerous precedent of granting a small subsidy to individual farmers, involving a big subsidy to bondholders, will ultimately result in granting similar exempting subsidies to every industry which can make itself felt in Congress.

The final result of this policy will be that the majority of wealthy investors will be exempt from taxation. Then the owners of real estate, those who receive earned incomes, and consumers will be compelled to carry the tax burdens of the Nation.

Mon. L. T. McFadden in the House of Representatives very forcefully showed that the consumer and taxpayer carry the burden of tax exemption when he said:

"Hon. Louis F. Post, Assistant Secretary of Labor, recently stated with regard to the payment of wages: 'Business men and employers are overlooking the fact that the real employer of labor is the consumer—the laboring man himself. Every man who is put to work, whether it be building a house, constructing a road, or digging a ditch, is employing other men—men who sell him food and clothes—and these in turn employ others who manufacture the food and clothes.' I desire to add that the real taxpayer is the consumer. Everything he eats, wears, or uses is made higher priced by the increased taxes paid by merchants and manufacturers when they are compelled to carry the tax burdens evaded by owners of tax-free bonds. The man and woman who consume all of their incomes every year pay a heavier proportionate indirect consumption tax than those who have larger incomes and are thus enabled to save part."

The creation of additional tax-exempt bonds affords an opportunity for very wealthy investors to compel the payment of higher rates of interest on taxable securities by refusing to renew at maturity and investing their funds in the tax-exempt bonds. Taxable bonds and stocks are also sold at a discount in order that the proceeds may be invested in tax-exempt bonds. Competition with tax-exempt securities is one of the principal causes compelling the railroads to now pay $120,000,000 more interest annually than before the war. Rates charged to industrial, commercial, and transportation companies show a similar increase. These high rates of interest react to increase the prices of everything purchased by all farmers and others.

SALES TAXES AND LAND TAXES URGED.

Tax-burdened people are ever ready to listen to new plans for relief. Magazine writers and lecturers are aggressively urging heavier land taxes as one solution of the difficulty.

Another class of economists urges a sales tax as a method of increasing public revenue. These urge that a tax of 1 per cent should be charged on every sale, wholesale and retail. The sale of a $40 suit of clothes would involve the payment of 40 cents tax. The sale of a pair of $5 shoes would involve the payment of a 5 cents tax. The farmer who sold a $50 hog would be compelled to pay a tax of 50 cents. On a $100 cow the tax would be $1. On a 50-bushel load of wheat, selling at $2.26 per bushel, the tax would be $1.13. On a $200

horse the sales tax would be $2. This plan has many supporters. The majority of voters of our country live in the cities. When it becomes apparent that a sales tax or a land tax will be necessary to relieve them of tax burdens the majority will be found favoring such remedies, and the farmers and other real estate owners will in the end become the burden bearers.

WILL REDUCE BANK DEPOSITS.

In a recent speech one of our great financiers, Mr. Otto Kahn, quoted an old and tested truth when he said, "Wrong economics, however well intentioned, have been more fruitful of harm to the people than almost any other single act of government."

The cooperative methods of the Federal land banks are beneficial to the farmers, but they do not depend on tax exemption.

The credit of joint-stock land banks is aided through the prestige given by Government supervision.

Because of the importance of these features both of these banks may become very beneficial institutions, but experience will show that the tax exemption conferring its principal benefits upon bondholders is economically wrong, however well intentioned, and not a contribution to public welfare.

At the present time commercial banks are carrying vast amounts of time deposits bearing low rates of interest. These deposits are generally subject to property tax and to Federal income tax. The depositor who pays Federal income tax and local property tax on a bank deposit bearing 4 per cent will not be slow to draw his deposit from the bank and invest it in 5 per cent bonds entirely free from local taxes and from Federal income taxes. This will reduce the amount of deposits in the banks available to loan for local uses and will naturally increase local short-time interest rates to commercial borrowers.

There are several billion dollars of municipal and State bonds not subject to Federal income tax, but in nearly every State of the Union these are subject to property taxes. The States of Ohio, Indiana, and Illinois are typical of nearly all others in which municipal bonds of other States are subject to the same taxes as other moneys and credits.

The fact that municipal bonds are usually subject to State and other property taxes is not disputed by anyone who has investigated the subject.

AN INFRINGEMENT ON RIGHTS OF STATES.

Several of the witnesses for the joint stock land banks claim that municipal bonds are wholly tax free. In this they are mistaken. This discrimination in favor of joint stock land banks is a direct infringement upon the rights of States. Bonds, mortgages, and other securities of banks and individuals and municipal bonds are subject to State and local taxation, but the Federal law prohibits the taxation of joint stock land bank bonds.

South Dakota and Oregon have State rural credit systems. South Dakota has loaned over $20,000,000 to citizens of that State on cultivated farm lands. None of these loans exceeds $10,000 in amount. There have been no violations of the law by permitting farms to be divided among several members of a family in order to secure loans larger than the legal amount of $10,000. The State of South Dakota issues 5 per cent bonds and sells them to secure funds for its loans. A South Dakota farm-loan bond is subject to an annual tax of half of 1 per cent, if owned by a citizen of Iowa. A joint stock land bank bond based on farm loans made in the State of South Dakota is entirely free from taxation in the State of Iowa. Here is a direct discrimination against the State of South Dakota to the extent of half of 1 per cent, or one-tenth of the income of the South Dakota rural credit bond. This is a flat rate of taxation not depending on the income of the bondholder. The same discrimination in favor of the joint stock land bank bonds applies to other States, except that in many the property tax is much higher and the discrimination greater.

FOOD PRODUCTION NOT INCREASED.

When the law was enacted it was assumed that it would increase food production. Statistical investigation fails to prove any material increase in food production as the result of this tax exemption. "No increase in food production can be honestly attributed to the Federal farm-loan act. Slight increases, where noted, are due to higher prices." The foregoing is a summary of answers

received to over 600 questionnaires sent out in January, 1920, to reliable parties in the 28 principal food-producing States.

The Third Annual Report of the Federal Farm Loan Board shows uses made of money borrowed from Federal land banks during the year ending November 30, 1919, as follows:

	Per cent.
Refunding mortgages and other debts	68
Purchase of land	13
Building and improvements	9
Purchase of live stock	3
Purchase of implements and equipment	2
Purchase of land-bank stock	5

The 68 per cent used for refunding old mortgages and debts could not increase production, because corn grows just as tall and wheat yields just as much under an insurance company mortgage as under a land-bank mortgage.

The 13 per cent used for the purchase of land in the majority of cases was for increasing the size of farms, and there is no pretense that the land yielded more under the new ownership than under the old.

The 3 per cent invested in live stock and the 2 per cent invested in farm implements is not a sufficiently large amount to have any material effect in increasing food production, even if it has any effect at all.

There is no published statement of the use of the proceeds of the joint-stock land-bank loans, but as the loans average much larger than the Federal land-bank loans, as they have not been confined to cultivated lands, and as the loans have not in all cases been used for agricultural purposes, it is safe to assume that the effect upon food production of joint-stock land-bank loans was even smaller than that of the Federal land-bank loans.

DO NOT REDUCE FARM TENANCY.

It is claimed for the joint-stock land banks that they reduce farm tenantry. When the Federal farm loan act was enacted it was contended that one of its principal objects was to create more farm homes. A typical advance press notice of a farm-loan organizer runs something like this:

"Mr. ———, of the ——— Federal land bank, will speak at the town hall of the village of Smithville next Thursday evening and explain the benefits of the Federal farm loan act. This act is the greatest piece of constructive legislation that has ever been enacted by the American Congress. Its objects is to reduce farm tenantry and to furnish farm homes for landless men. When there is a happy and contented family on every 80 acres of land within 5 miles of the village of Smithville this locality will be in a much more prosperous condition than at present. There will be more business for the dentist, for the doctor, for the butcher, for the merchant, and for the banker. Everybody ought to support the Federal land bank. It benefits town people as well as farmers."

It is a partial admission of failure in the original purpose of the act, now that some of the Federal land banks and the joint-stock land banks contend that it is necessary to have farms of the size of 240 acres or larger in order to make them profitable farm units. There is more profit in big loans than little ones. For this reason they urge that loans be permitted of the size of $25,000 and larger.

The loan limit now fixed by the Federal Farm Loan Board is $100 per acre. In order to borrow $25,000 a farmer would need to be the owner of 250 acres of land worth at least $200 an acre. It is claimed that the same amount of capital is necessary in a new country and in a range country in order to make the most profitable farm or range unit.

If the land were worth $100 per acre the loan limit would be $50 per acre. Then the farmer would need to have 500 acres of land to be qualified for a $25,000 loan. If the land were worth $20 per acre, the loan rate would be $10 per acre and the farmer would need to have a range of 2,500 acres in order to qualify for a $25,000 loan. If the range land were worth $10 per acre, the loan limit would be $5, and the rancher would then need to have 5,000 acres in order to qualify for a $25,000 loan.

Joint stock land banks are permitted to make loans to the amount of $50,000, which would involve farms twice the size of these enumerated.

According to the United States census of 1910 the average size of farms in this country was 138.5 acres. In the year 1900 the average size was 146.2 acres. The general tendency is thus shown to be toward the reduction of the

size of farms. Experts estimate that the census of 1920 will show the average size to be about 130 acres. The joint-stock land banks desire to be subsidized by tax exemption so as to increase the size of the farm, and reverse the natural tendency.

The making of these large loans, involving the purchase of additional lands, increases the size of the farms that now exist and necessarily reduces the number of farm homes occupied by owners. This increases farm tenantry, or it gives the wealthy landowner a larger farm to operate by the use of hired help, while the farm neighbor whom he buys out is obliged to move to the city, seek a new location, or become a hired hand. Obviously the result of these large loans is an increase in the size of farms, and hence a reduction in the number of farm homes. The wealthy farmer able to make a big loan buys out his neighbor, increases the size of his farm, and reduces the rural population of his community.

Witnesses for the joint-stock land banks claim that they are entitled to the subsidy of tax exemption, because they furnish the money to borrowers at a lower rate than private investors, and that no other commission is charged. At the present time 30 joint-stock land banks are authorized to do business. Nearly half of these are located in or near Iowa and authorized to make loans in that State.

JOINT STOCK LAND BANKS RECEIVE AS HIGH AS 33 PER CENT COMMISSION.

Joint-stock land banks make loans for 33 years and charge the borrower 6 per cent interest, and also charge the borrower a fair, reasonable, additional expense for abstracts, etc. It is no more expensive for them to make one loan for 33 years than it would be to put the same loan on their books for five years. They sell tax-free bonds at 5 per cent against the 33-year loan, thus giving them 1 per cent profit on each dollar of the loan for every year that it is unpaid. This gives 33 per cent on that part of the loan that runs 33 years and a smaller commission on that sooner paid.

When the borrowers pay 6 cents interest the banks keep 1 cent and pay 5 cents for interest on the tax-exempt bonds. At all times during the life of the loan one-sixth of the interest paid by the borrower goes to the joint-stock land banks as commission. On a $10,000 loan they start off with $100 commission the first year, $99 the second, $97.94 the third, $96.81 the fourth, and $95.62 the fifth, making a net profit of $489.37 for the first five years of the loan. When the loan is finally paid, at the end of 33 years, the borrower on a $10,000 loan will have paid $13,042.30 interest, of which $2,173.20 will be profit or commission for the joint stock land bank.

In the brief submitted to the supreme court by the lawyers for the joint-stock land banks official statistics are quoted to prove that the average interest rate on farm mortgages in Iowa is 5.6 per cent, and that the average commission paid to loan agents is three-tenths of 1 per cent, making the gross cost to the borrower 5.9 per cent. This cost is on loans for five years, on which the mortgages are subject to local, municipal, and State taxes, as well as Federal income, surtaxes, and normal taxes. This commission of three-tenths of 1 per cent gives the loan agent $150, as compared with the joint-stock land bank commission or profit of $489.37, a difference of $339.37 in favor of the joint-stock land bank for the first five-year period, in addition to the privilege of tax exemption granted to the investor who purchases the bonds. Besides receiving more than three times the commission collected for the first five years by the regular loan agent, the joint-stock land bank also continues to receive 1 per cent per annum for the remaining 28 years of the 33-year period on every dollar of the unpaid principal.

REBATE OR EXEMPTION TO BONDHOLDERS.

In addition to the very heavy commission received by the joint stock land banks, Congress should consider that the wealthy owner of the $10,000 5 per cent bond has each year been receiving an enormous rebate on his taxes. If the man's income was in excess of a million dollars a year and this bond yielding him $500 per year income was part of that excess, the tax exemption would be worth 73 per cent of $500 every year, or $365 per year, a total loss to the National Treasury of $1,725 in five years and a loss of $7,300 in 20 years, the life of the bond.

If this same Iowa farmer had borrowed his money from a local investor at the current rate of 5.9 per cent, the National Treasury would save $365 per year, the community where the owner of the mortgage lived would be enriched by the local property taxes charged against it, and the farmer himself would have paid one-tenth of 1 per cent less interest every year than that charged by the joint stock land bank.

In actual practice, 5 and 10 year loans made with reliable insurance companies or other large investors are renewed from term to term without any material expense for preparation of abstracts, renewal fees, etc. The expense of renewals is much less than alleged by joint stock land bank advocates.

ADDITIONAL ILLEGAL COMMISSIONS.

A witness for a joint stock land bank says that no additional commission is charged. It is true that the law specially prohibits officers and employees of joint stock land banks from accepting additional commissions from borrowers, but there seems to be no practicable way of protecting borrowers from the extortions of loan agents who recommend the loans. There are rumors of such fees and commissions having been charged by the representatives of several joint stock land banks, and hearsay reports indicate that commissions have been paid. In all probability many joint stock land bank borrowers would receive very prompt rebates if they were officially informed that they were entitled to them.

It is not the purpose of this statement to cast any reflections upon the principal officers of any joint stock land bank. The high personal character and business standing of the officers of the Bankers Joint Stock Land Bank of Milwaukee is such that they will in advance be exonerated of any complicity in charging commissions to borrowers through their agents, but the following seven affidavits show that great vigilance does not always protect the borrowers. These evidences prove that in actual practice some borrowers pay commissions in addition to the 1 per cent per annum on the unpaid principal.

STATE OF MINNESOTA.
County of Cass, ss:

John F. Lembke, being duly sworn, deposes and says that in the summer of 1919, he made a loan from the bankers joint stock land bank of Milwaukee, in the sum of $6,000 on his farm in section 13, township 137, range 30, Cass County, Minn., through F. Lillstrom, vice president of the Farmers State Bank of Pine River, Minn., the rate of interest thereon being 6 per cent. That said Lillstrom received as a commission for making said loan the sum of $88 in cash, same being deducted from the proceeds of said loan, over the protest of affiant.

JOHN F. LEMBKE.

Subscribed and sworn to before me this 7th day of February, A. D. 1920.

EUGENE L. FORBES,
Notary Public, Cass County, Minn.

My commission expires May 15, 1921.

STATE OF MINNESOTA.
County of Cass, ss:

Anson Beals, being duly sworn, on oath says that in the fall of 1919 he made a loan of $1,500 from the bankers joint stock land bank of Milwaukee through Peter Lillstrom, vice president of the Farmers State Bank of Pine River, said loan being secured by mortgage on north half of the southwest quarter and the northeast quarter of the southwest quarter of section 30, township 139 north range 28 West, Cass County, Minn., the interest rate being 6 per cent. That he paid to said Lillstrom from the proceeds of said loan the sum of $75 as commission, said amount being retained by said Lillstrom from said proceeds.

ANSON BEALS.

Subscribed and sworn to before me this 14th day of February, A. D. 1920.

EUGENE L. FORBES,
Notary Public, Cass County, Minn.

My commission expires May 15, 1921.

STATE OF MINNESOTA,
County of Cass, ss:

Glenn A. Glover, being duly sworn, on oath says that in about the month of August, 1919, he made a loan from the bankers joint stock land bank of Milwaukee, in the sum of $800, bearing 6 per cent interest, on his land in section 2, township 138–29, Crow Wing County, Minn., through P. Lillstrom, the vice president of the Farmers State Bank of Pine River, Minn.; that said Lillstrom charged him, and he paid to said Lillstrom, a cash commission of $53 for the making of said loan, said commission being deducted from the proceeds of said loan.

GLENN A. GLOVER.

Subscribed and sworn to before me this 7th day of February, A. D. 1920.

EUGENE L. FORBES,
Notary Public, Cass County, Minn.

My commission expires May 15, 1921.

STATE OF MINNESOTA,
County of Cass, ss:

W. B. Bogart, being duly sworn, on oath says that under date of ———, 1919, he procured a loan through P. Lillstrom, vice president of the Farmers' State Bank of Pine River, Minn., in the sum of $6,000 from joint-stock land bank of Milwaukee, interest rate 6 per cent, for a period of 32 years; that when settlement was made by him of said loan, that said P. Lillstrom charged him, and he paid to said Lillstrom a cash commission of $100 for making said loan, same being withheld from the proceeds of said loan.

W. B. BOGART.

Subscribed and sworn to before me this 6th day of February, 1920.

EUGENE L. FORBES,
Notary Public in and for Cass County, Minn.

My commission expires May 15, 1921.

STATE OF MINNESOTA,
County of Cass, ss:

Asa L. Grover, being duly sworn, on oath says that in the fall of 1919, he made a loan in the sum of $2,500 from the bankers' joint-stock land bank of Milwaukee, through Peter Lillstrom, vice president of the Farmer's State Bank, of Pine River, Minn., bearing 6 per cent interest, securing same by mortgage on the E. ½ SE. ¼, 18–137–29, and the SW. ¼ NW. ¼, 17–137–29, Cass County, Minn.; that he paid to said Lillstrom, from the proceeds of said loan the sum of $75 commission for making said loan, including the making out of papers.

ASA L. GLOVER.

Subscribed and sworn to before me this 11th day of February, A. D. 1920.

EUGENE L. FORBES,
Notary Public, Cass County, Minn.

My commission expires May 15, 1921.

STATE OF MINNESOTA,
County of Cass, ss:

Asa D. Trout, being duly sworn, deposes and says that in the month of August, 1919, about August 20, he made a loan of $2,000 from the bankers' joint-stock land bank of Milwaukee, through P. Lillstrom, the vice president of the Farmers' State Bank of Pine River, Minn., covering W. ½ NW. ¼ section 27, township 138, range 30, Cass County, Minn. That from said loan or the proceeds thereof, he paid the sum of $70 as commission to said Lillstrom or said bank, said sum including expense of making out papers.

ASA D. TROUT.

Subscribed and sworn to before me this 9th day of February, 1920.

EUGENE L. FORBES,
Notary Public, Cass County, Minn.

My commission expires May 15, 1921.

STATE OF MINNESOTA,
County of Cass, ss:

Ola Goranson, being duly sworn, deposes and says that in the summer of 1919, he made a loan of $3,000 from the bankers' joint-stock land bank of Milwaukee, through Peter Lillstrom, vice president of the Farmers' State Bank, of Pine River, Minn., said loan being secured by mortgage on south half of northwest quarter of section 36, township 138, range 30, Cass County, Minn., the interest rate being 6 per cent. That he paid to said Lillstrom from the proceeds of said loan the sum of $75 as commission, said amount being retained by said Lillstrom from said proceeds.

OLA GORANSON.

Subscribed and sworn to before me this 16th day of February, 1920.

EUGENE L. FORBES,
Notary Public, Cass County, Minn.

My commission expires May 15, 1921.

BIG BORROWERS CAN NOT BE POOR MEN.

It is argued that $25,000 loans are necessary in order that young men, poor men, and farm tenants may be enabled to purchase farms large enough to be profitable farm units. In order to get a loan of $25,000, the borrower must have cash or property free from encumbrance valued fully $25,000 in order that he may be qualified to make such a loan, because the loan must be secured by property valued at $50,000. The absurdity of Government aid to these rich landowners is apparent when we consider that the average wealth of the United States was in 1910 only $521 for each person.

Mr. C. N. Williams, president of the Farmers Trust Co., of Indianapolis, has been in the farm-loan business for 38 years, making loans from the Indianapolis office in the high-grade territory of Ohio, Indiana, Kentucky, Illinois, and Missouri. He represents life insurance companies. He says:

"The man who wants to borrow $25,000 is not a poor man and when he wants to borrow 50 per cent of the value of his ground and 20 per cent of the value of his buildings, it is for speculating purposes, and that amount is something that very few, if any, tenants require."

He contends that the great majority of farm loans are below $10,000 in amount and he gives data from his own experience in the high-grade territory in which he loans to prove the correctness of his assertions. From the books of his company he shows that the applications from September 1, 1919, to December 19, 1919—2½ months—indicate the loans considered to have been classified as to size, as follows:

Loans from $1,600 to $10,000, 252 in number, $1,422,000; average, $5,642.
Loans from $10,000 to $20,000, 45 in number, $639,000; average, $14,200.
Loans over $20,000, 4 in number, $126,200; average, $31,550.
Grand total, 301 loans; amount, $2,187,200; average, $7,266.

Experience of other loan agents in new territory, where lands are not so high, will prove that the average loans are smaller than those in the Indianapolis territory. This being the case there can be no reasonable excuse for subsidizing banks or bondholders to secure money for large loans to aid real estate speculators and the doubling up of large farms.

MERITS AND DISADVANTAGES OF INSTALLMENT LOANS.

It is asserted by witnesses for joint-stock land banks that they should be granted the tax exemption privilege because they make loans on the amortization basis for a 33-year term and that this is of great benefit to the borrower. The payment of debts like the saving of money is as much a psychological as an economic proposition. In order to promote thrift, the debtor should be stimulated to pay his debt as rapidly as possible rather than encouraged to defer his debt payments for a long period, so as to be compelled to pay interest for many years. There is no particular magic in the payment of a debt in installments of exactly the same size for 33 years.

The borrower, who is 40 years of age at the time he makes his loan, would be 73 before the last payment comes due. His expectancy, according to the life-insurance tables, is shorter than the term of his loan. He therefore knows that the probabilities are that death will overtake him before his loan is paid. Dur-

ing the early period of his loan the borrower will be vigorous and his earning capacity will be much greater than during the later years. It therefore naturally follows that he ought to be able to pay more in the immediate future than at later times. The appraiser can, with considerable accuracy, estimate the earning capacity of a borrower and the productive qualities of his farm during the 5, 10, or 15 years following the making of the loan. No one can, with any certainty, predict 30 or 40 years in the future. For these reasons there are good arguments in favor of amortizing the loans by small annual payments diminishing in size each year, making the payments easier as the borrower grows older, until they vanish entirely at a stated date in the future. These installments can be made sufficiently small to suit the capacity of the borrower and he earlier reduction of the principal increases the security of the lender and reduces the interest expense to the borrower.

The selling of household furniture and the loaning of money on the installment plan has always been a favorite method of those who desire to secure big prices because the payer by liquidating his obligation in small installments does not realize that the aggregate of the payments is large.

A comparison of the amount of interest and commission paid on several loans running for different periods at the same rate of interest shows startling results against the borrower for the long period. It also shows that the diminishing payment amortization plan is much cheaper for the borrower than the equal payment plan used by the joint-stock land banks.

A loan of $1,000, drawing 5½ per cent interest, payable in 20 annual installments of $50 plus the interest, would be liquidated in 20 years. Under this plan the payments would diminish $2.75 each year, starting with $105 and ending with $52.75. The total amount of interest paid would be $537.50. If the investor refunded this loan at 4½ per cent, giving him 1 per cent commission or profit at all times on the unpaid principal, the commission would be $97.73.

The same loan of $1,000 made for 35 years, at the same rate of 5½ per cent interest, payable $65 each year, would be liquidated at the end of 35 years, at which time the borrower would complete the payment of $1,272.50 interest. He would pay about two and one-half times as much interest for the 35-year loan on this plan as he would for a 20-year loan on the plan of paying a diminishing amount each year. If the investor refunded this loan at 4½ per cent, allowing him 1 per cent for commission or profit, the commission would be $231.76.

If the same loan of $1,000 was made at the same rate of 5½ per cent, with $25 payable each year on the principal, plus the interest, the loan would be liquidated in 40 years and the total interest which the borrower would pay to the investor would be $1,127.50. If this loan were refunded at 4½ per cent, the same as the 35-year loan, allowing the investor 1 per cent commission, the commission would be $205. Under the plan of a diminishing payment each year the borrower would be given 40 years in which to pay his debt instead of 35 years, the amount of interest would be $145 less than for the 35-year loan, and the commission to the investor would be $26.76 less than for the 35-year loan. The borrower would have five years more time in which to pay his debt besides saving $145 interest.

At first thought it does not seem possible that $1,000 could be borrowed for 40 years at less expense than for 35 years, the interest rate being the same in both cases. That this is possible is due to the more rapid reduction of the principal in the early life of the loan. Under the equal-payment plan the 35-year loan would be reduced only $10 at the end of the first year, while under the other plan the 40-year loan would be reduced $25 at the end of the first year. The 40-year borrower would save the interest on $15 of principal for all subsequent years. At the end of 20 years the 40-year borrower would owe only $500 while the 35-year borrower would still owe $651.32. The first payment on the 35-year loan would be $65, while the first payment on the 40-year loan would be $80, but the payments on the 40-year loans would be constantly diminishing while the 35-year loan payments would remain the same. After the eleventh year the payments on the 40-year loan would be smaller than the payments on the 35-year loan, and during the last 10 years the payments on the 40-year loan would only be about half the size of the payments on the 35-year loan.

The borrower from a joint-stock land bank who obtains a loan of $1,000 at 6 per cent interest, repayable in 33 years by equal semiannual payments of $35 each, pays a still higher amount of interest, the total interest being $1,304.23. The bonds of these banks are refunded at 5 per cent, giving the joint-stock land banks 1 per cent profit on the unpaid principal. This commission is one-sixth of the total interest paid, $217.32.

When the interest cost of $1,304.23 paid to a joint-stock land bank for a 6 per cent 33-year loan is compared with the small amount of $537.50 paid on a 20-year 5½ per cent loan, payable in 20 diminishing annual installments, it becomes apparent that the borrower would be greatly benefited if he could be stimulated or inspired to take the 20-year loand and by greater effort discharge more of the principal during the early years.

If it were impossible for the borrower to discharge the debt in 20 annual payments he could, without question, pay the annual installments of one-fortieth of the principal and thus be permitted to carry the loan for 40 years at an expense of interest of $176.73 less than would be the cost of borrowing it from the joint-stock land banks at 6 per cent for 33 years on the fixed payment basis.

The borrower who can arrange to liquidate his loan in 20 diminishing annual amortization payments would be called upon to pay only about two-fifths as much interest or commission as one who borrowed for 33 years or 35 years on the equal annual amortization payments, as required by the joint-stock land banks and Federal land banks. If the circumstances of the borrower are such that he could not liquidate his loan in 20 years or secure a 40-year loan, he could borrow the money for 20 years and make payments on the diminishing-payment amortization plan which would result in paying half of the loan in 20 years. At the end of 20 years, if not able to pay the balance, he could renew or make a new loan for the other 20 years. This would give him the advantages of the 40-year plan and would enable the land bank to safely finance his loan by selling a 20-year bond. Reference to the tables will show that this would be much more economical for the borrower than the fixed payment amortization plan followed by the Federal land banks and the joint-stock land banks.

Several insurance companies are making loans on the 20-year amortization plan. One company has adopted a plan which makes the payments easy for the borrower and insures the liquidation of half of the loan in the 20-year period. This company does not require any of the principal to be paid during the first three years. For the next 17 years 3 per cent of the principal is paid annually. At the end of 20 years 51 per cent of the principal has been paid. Under the 33-year plan of the joint-stock land banks, at the end of 20 years only 37.7 per cent of the principal has been paid. This leaves the borrower in debt only $490 on a thousand under the insurance company plan, and in debt $623 on a thousand under the joint-stock land bank plan. At the same rate of interest he would during the 20 years pay considerable more interest on the joint-stock land bank loan than on the insurance company loan.

A critical examination of the tables showing the life of the loan under the equal-payment plan of amortization and under the diminishing-payment plan of amortization shows that the joint-stock land bank plan offers no advantages which entitle it to the subsidy of tax exemption.

Table showing cost of loan of $1,000 at 5½ per cent amortized by diminishing annual installments for 20 and 40 years compared with a $1,000 loan amortized by 33 equal annual payments.

Payment No.	Diminishing payment plan, 20 years, $1,000 loan, amortized by 20 diminishing annual installments of $50 plus interest at 5½ per cent on unpaid principal.					Federal land bank plan, 35 years, $1,000 loan, amortized by 35 equal annual payments of $64.57 and interest at 5½ per cent on unpaid principal.					Diminishing payment plan, 40 years, $1,000 loan, amortized by 40 diminishing annual installments of $25 plus interest at 5½ per cent on unpaid principal.				
	Installment.	Interest.	Applied on principal.	Principal unpaid.	Principal unpaid.	Interest.	Applied on principal.	Principal unpaid.	Installment.	Principal unpaid.	Applied on principal.	Interest.	Installment.
1	$105.00	$55.00	$50.00	$950.00	$990.00	$55.00	$10.00	$990.00	$65.00	$975.00	$25.00	$55.00	$80.00
2	102.75	52.25	50.50	900.00	979.45	54.47	10.15	979.85	65.00	950.00	25.00	53.63	78.63
3	99.50	49.50	50.00	850.00	968.32	53.87	11.13	968.32	65.00	925.00	25.00	52.25	77.25
4	96.75	46.75	50.00	800.00	956.58	53.26	11.74	956.58	65.00	900.00	25.00	50.87	75.87
5	94.00	44.00	50.00	750.00	944.12	52.59	12.41	944.12	65.00	875.00	25.00	49.50	74.50
6	91.25	41.25	50.00	700.00	930.91	51.91	13.07	930.91	65.00	850.00	25.00	48.12	73.12
7	88.50	38.50	50.00	650.00	917.33	51.21	13.79	917.33	65.00	825.00	25.00	46.75	71.75
8	85.75	35.75	50.00	600.00	903.45	50.45	14.55	903.45	65.00	800.00	25.00	45.37	70.37
9	83.00	33.00	50.00	550.00	889.23	49.66	15.34	889.23	65.00	775.00	25.00	43.99	68.99
10	80.25	30.25	50.00	500.00	874.64	48.81	16.19	874.64	65.00	750.00	25.00	42.62	67.62
11	77.50	27.50	50.00	450.00	859.69	47.92	17.08	859.69	65.00	725.00	25.00	41.25	66.25
12	74.75	24.75	50.00	400.00	844.34	47.03	17.97	844.34	65.00	700.00	25.00	39.87	64.87
13	72.00	22.00	50.00	350.00	828.59	46.10	18.90	828.59	65.00	675.00	25.00	38.50	63.50
14	69.25	19.25	50.00	300.00	812.42	45.12	19.88	812.42	65.00	650.00	25.00	37.12	62.12
15	66.50	16.50	50.00	250.00	795.81	44.14	20.86	795.81	65.00	625.00	25.00	35.75	60.75
16	63.75	13.75	50.00	200.00	778.74	43.15	21.85	778.74	65.00	600.00	25.00	34.37	59.37
17	61.00	11.00	50.00	150.00	761.19	42.16	22.84	761.19	65.00	575.00	25.00	33.00	58.00
18	58.25	8.25	50.00	100.00	743.16	41.17	23.83	743.16	65.00	550.00	25.00	31.62	56.62
19	55.50	5.50	50.00	50.00	724.63	40.15	24.85	724.63	65.00	525.00	25.00	30.25	55.25
20	52.75	2.75	50.00		705.59	39.12	25.88	705.59	65.00	500.00	25.00	28.87	53.87
21					685.99	38.09	26.91	685.99	65.00	475.00	25.00	27.50	52.50
22					665.83	37.04	27.96	665.83	65.00	450.00	25.00	26.12	51.12
23					645.09	35.98	29.02	645.09	65.00	425.00	25.00	24.75	49.75
24					623.74	34.91	30.09	623.74	65.00	400.00	25.00	23.37	48.37
25					601.78	33.82	31.18	601.78	65.00	375.00	25.00	22.00	47.00
26					579.19	32.72	32.28	579.19	65.00	350.00	25.00	20.62	45.62
27					555.95	31.59	33.41	555.95	65.00	325.00	25.00	19.25	44.25
28					532.04	30.45	34.55	532.04	65.00	300.00	25.00	17.87	42.87
29					507.44	29.29	35.71	507.44	65.00	275.00	25.00	16.50	41.50
30					482.13	28.11	36.89	482.13	65.00	250.00	25.00	15.13	40.13
31					456.09	26.91	38.09	456.09	65.00	225.00	25.00	13.75	38.75
32					429.29	25.69	39.31	429.29	65.00	200.00	25.00	12.37	37.37
33					401.71	24.45	40.55	401.71	65.00	175.00	25.00	11.00	36.00
34					373.32	23.18	41.82	373.32	65.00	150.00	25.00	8.62	33.62
35					344.12	21.89	43.11	344.12	65.00	125.00	25.00	6.87	31.87
36					314.09	20.57	44.43	314.09	65.00	100.00	25.00	5.50	30.50
37					283.21	19.22	45.78	283.21	65.00	75.00	25.00	4.12	29.12
38					251.47	17.84	47.16	251.47	65.00	50.00	25.00	2.75	27.75
39					218.84	16.44	48.56	218.84	65.00	25.00	25.00	1.37	26.37
40					185.28	14.99	50.01	185.28	65.00				
	1,837.50	537.50	1,000.00			1,272.50	1,000.00		2,272.50		1,000.00	1,127.50	

Joint Stock Land Bank Plan. 33 Years.

Table showing payments of principal and interest for a loan of $1,000 at 6 per cent interest, repayable in 33 years by means of semiannual installments of $35.

Payment No.	Installment.	Interest.	Applied on principal.	Principal still unpaid.	At end of—
1	$35.00	$30.00	$5.00	$995.00	
2	35.00	29.85	5.15	989.85	1 year.
3	35.00	29.70	5.30	984.55	
4	35.00	29.54	5.46	979.09	2 years.
5	35.00	29.37	5.63	973.46	
6	35.00	29.20	5.80	967.66	3 years.
7	35.00	29.03	5.97	961.69	
8	35.00	28.85	6.15	955.54	4 years.
9	35.00	28.67	6.33	949.21	
10	35.00	28.48	6.52	942.69	5 years.
11	35.00	28.28	6.72	935.97	
12	35.00	28.08	6.92	929.05	6 years.
13	35.00	27.87	7.13	921.92	
14	35.00	27.66	7.34	914.58	7 years.
15	35.00	27.44	7.56	907.02	
16	35.00	27.21	7.79	899.23	8 years.
17	35.00	26.98	8.02	891.21	
18	35.00	26.74	8.26	882.95	9 years.
19	35.00	26.49	8.51	874.44	
20	35.00	26.23	8.77	865.67	10 years.
21	35.00	25.97	9.03	856.64	
22	35.00	25.70	9.30	847.34	11 years.
23	35.00	25.42	9.58	837.76	
24	35.00	25.13	9.87	827.89	12 years.
25	35.00	24.84	10.16	817.73	
26	35.00	24.53	10.47	807.26	13 years.
27	35.00	24.22	10.78	796.48	
28	35.00	23.89	11.11	785.37	14 years.
29	35.00	23.56	11.44	773.93	
30	35.00	23.22	11.78	762.15	15 years.
31	35.00	22.86	12.14	750.01	
32	35.00	22.50	12.50	737.51	16 years.
33	35.00	22.13	12.87	724.64	
34	35.00	21.74	13.26	711.38	17 years.
35	35.00	21.34	13.66	697.72	
36	35.00	20.93	14.07	683.65	18 years.
37	35.00	20.51	14.49	669.16	
38	35.00	20.07	14.93	654.23	19 years.
39	35.00	19.62	15.38	638.85	
40	35.00	19.17	15.83	623.02	20 years.
41	35.00	18.69	16.31	606.71	
42	35.00	18.20	16.80	589.91	21 years.
43	35.00	17.70	17.30	572.61	
44	35.00	17.18	17.82	554.79	22 years.
45	35.00	16.64	18.36	536.43	
46	35.00	16.09	18.91	517.52	23 years.
47	35.00	15.53	19.47	498.05	
48	35.00	14.94	20.06	477.99	24 years.
49	35.00	14.34	20.66	457.33	
50	35.00	13.72	21.28	436.05	25 years.
51	35.00	13.08	21.92	414.13	
52	35.00	12.42	22.58	391.55	26 years.
53	35.00	11.75	23.25	368.30	
54	35.00	11.05	23.95	344.35	27 years.
55	35.00	10.33	24.67	319.68	
56	35.00	9.59	25.41	294.27	28 years.
57	35.00	8.83	26.17	268.10	
58	35.00	8.04	26.96	241.14	29 years.
59	35.00	7.23	27.77	213.37	
60	35.00	6.40	28.60	184.77	30 years.
61	35.00	5.54	29.46	155.31	
62	35.00	4.66	30.34	124.97	31 years.
63	35.00	3.75	31.25	93.72	
64	35.00	2.81	32.19	61.53	32 years.
65	35.00	1.85	33.15	28.38	
66	29.23	.85	28.38	.....	33 years.
	2,304.23	1,304.23	1,000.00	.....	

JOINT STOCK LAND BANK PLAN; 33 YEARS—Continued.

Recapitulation.

[On $1,000 loan.]

	Interest paid by borrower.	Commission to bank on 1 per cent margin.
20-year diminishing annual payments	$537.50	$97.73
40-year diminishing annual payments	1,127.50	205.00
35-year equal annual payments (Federal Land Bank plan)	1,272.50	231.76
33-year, 66 equal semi-annual payments, joint stock land bank plan	1,304.23	217.32

Interest saved by borrower by the 20-year diminishing amortization plan:	
On $10,000 loan—	
Cheaper than the 35-year Federal land bank plan	$7,350.00
Cheaper than 33-year joint stock land bank plan	7,667.30
Interest saved by borrower by the 40-year diminishing payment amortization plan:	
Cheaper than 35-year Federal land bank plan	1,450.00
Cheaper than 33 year joint stock land bank plan	1,767.30

FARMER LOSES $346.50 MORE.

A distinct loss to the borrower and a corresponding gain to the joint-stock land banks results from the half yearly or semiannual payments required by the banks. Under the usual plan of debt payment, interest is paid at the end of each year. By requiring payments every six months the joint-stock land banks make an additional net profit equal to the interest for six months on one payment each year.

The farmer owing a debt of $10,000, with $350 of interest and amortization payment coming due in April and October of each year, will learn this to his regret the first time the April payment finds him without the ready cash. If he borrows the $350 for six months to make the April payment at 6 per cent, the same rate as charged by the joint-stock land bank, when he sells his grain in October he will make the second payment to the joint-stock land bank and then pay the short-time note given for the money paid in April. The interest cost on the April payment will be $10.50. During the life of the loan the farmer will make 33 advance payments of this kind, in which he will lose the interest and the joint-stock land bank will each time have the money for six months to loan to some other farmer at 6 per cent interest. The exact loss to the farmer during the 33 years will be $346.50. This $346.50 is in addition to the difference between the payment of a debt by the annual diminishing payment plan of amortization and the semiannual equal-payment plan of amortization, as shown by the tables and the recapitulation. [At 6 per cent compound interest exact loss would amount to $964.84.]

A joint-stock land bank with $500,000 capital may have loans in force to the amount of fifteen times its capital stock, or $7,500,000. This equals 750 loans of $10,000 each. The annual profit from interest on these semiannual payments would be $7,875 more than if the payments were made annually. In a period of 33 years this extra profit would amount to $259,875 without taking into consideration the compound interest, which would make the extra surplus then on hand for dividends to stockholders half a million dollars. [At 6 per cent compound interest this extra surplus would amount to $723,630.] This would be in addition to the profits from regular interest charges and from the premiums on tax-free bonds sold above par.

TWO CLASSES OF BORROWERS.

Borrowers are of two classes. One class may be called investment borrowers, because they borrow to make a profit over and above the interest cost by use of the borrowed capital in business. For such borrowers the full amount of the loan can best be used for the full period and amortization loans are not desirable.

The other class may be called debt-paying borrowers. They borrow to pay the purchase price of property or for other temporary uses with the object in view of paying the debt as soon as compatible with good business management. For such borrowers, amortization plans are desirable and the diminishing payment plan is the best and most economical of the two.

DANGER OF FINANCING 33-YEAR LOANS ON 20-YEAR BONDS.

Although the joint-stock land banks and the Federal land banks make 33-year and 35-year loans, respectively, the funds by which these loans are made are obtained by the sale of 20-year bonds. The Federal land banks decided that 20-year bonds would be more readily salable than 35-year bonds. The joint-stock land banks did not find it feasible to enter the market with bonds having a longer maturity period than those issued by their competitors, the Federal land banks.

In other words, the banks borrow money for 20 years and then loan it on a close margin for 33 or 35 years. This kind of financing is hazardous in the extreme. Carefully compiled statistics of interest rates for the last 70 years show frequent and important fluctuations. Interest rates depend upon the demand for money and not upon the amount of money in circulation. It was the theory of some economists a few years ago that an increase of the circulating medium per capita would reduce the rate of interest. The experience of the last 10 years proves that the contrary is sometimes the case, as interest rates are now much higher than they were in 1900 or 1910.

The danger of financing 33-year loans with 20-year bonds was admitted by one of the representatives of the joint-stock land banks when he said, in referring to their profits, that there is no way at the present time to determine the interest rates that will prevail 20 years hence. If interest rates are higher, the banks would be obliged to refund the bonds at a higher rate and they might lose more money in the last 13 years of the life of the loans than they made during the first 20 years. If the interest rate is higher, the borrowers will not pay their loans before they are due, while the bondholders will insist upon payment of the bonds.

CONGRESS AND FARMER STOCKHOLDERS WILL WORRY.

The danger of being compelled to refund bonds at the end of 20 years at a higher rate of interest does not worry the officials of the Federal land banks, because they have no interest in the profits or losses of the institutions under their management. They are salaried officials, responsible only for the discharge of their duties according to law and not personally liable for economic blunders or policies.

Congress and the farmer stockholders of the Federal land banks will be the only ones to worry if it becomes necessary to incur a loss at the end of $20 years by refunding the bonds at a higher rate of interest.

The officials of the joint-stock land banks are directly interested in the earnings of their bank stock and the uncertainty of the last 13-year period of their loans now gives them occasion for anxiety.

In order to be exactly correct, it should be noted that one of the joint-stock land banks has avoided the blunder of financing 33-year loans with 20-year bonds. This is the Iowa Joint Stock Land Bank, of Sioux City, the first one chartered. The able financier who formulates the policies for this bank provides for 20-year loans financed by 20-year bonds. When the bonds mature, the collections from the loans will provide for their retirement. World wars, famine, pestilence, or inflations of the currency will not cause that bank any embarrassment in retiring its bonds.

BLUE-SKY ARGUMENT USED TO GET 33-YEAR LOANS.

It is easier to loan money for 33 years than for 20 years, because the annual payment is smaller and the borrower is persuaded to take the longer loan, because he is lured by the promise of small annual payments and does not understand fully the added cost of the loan for the longer period. It is no more trouble to the loan agents to make a 33-year loan than to make a 5-year loan, and he therefore prefers to make the long-time loan with its correspondingly bigger profits.

Borrowers have been grossly deceived by much of the propaganda circulated regarding amortization loans. Assertions are made about the economy of the scheme which a mathematical analysis of the tables will prove to be wrong. The claims of superiority presented under the indorsement of Government officials are in the main unquestioned by the borrowing public. Reference to the tables will show by analysis of the statements herein made that there is no rea-

sonable ground for granting subsidies to rich investors and joint-stock land banks in order to continue the tax exemption of joint-stock land bank bonds.

The large amount of loans made in Iowa by joint stock land banks at a rate higher than the average rate charged by private investors does not prove that the borrowers have been or will be benefited by the loans of these subsidized joint stock land banks. It merely shows that the borrowers have been made to think that they will be benefited by the 33-year loans.

A witness before a congressional committee this winter, arguing in favor of a national blue sky law, testified that over a billion dollars' worth of promotion stocks in blue-sky concerns had been sold in Iowa within the last 12 months. The investors in these blue-sky stocks were persuaded that it would be to their advantage to exchange their cash or Liberty bonds for promotion stocks in oil wells, packing companies, and other similar corporations represented by aggressive stock salesmen.

Canvassers for these amortization loans "that never come due" have presented arguments as alluring as those used by salesmen of promotion stocks in blue-sky concern. Many of the borrowers have been led to believe that a new method of killing off mortgages has been discovered, much easier than the honest payment of interest and principal.

The official literature of the Federal Farm Loan Board has been guilty of arguments of a shady character meriting the most severe criticism. In the Borrowers' Bulletin for April-May, 1919, a long explanation of the interest rate was given, closing with the positive statement that the interest rate is only 3.6 per cent on the money borrowed.

In Farm and Fireside for October, 1919, a long article extolling the farm-loan system was published, credited to Hon. C. E. Lobdell, of the Federal Farm Loan Board. In that article the statement was made that the interest rate to the farm borrower is "a little less than 4 per cent over a long period of years." When the attention of the judge was called to this inaccuracy, he disclaimed responsibility for it in private correspondence, and it appears that the objectionable sentence was inserted by the editor of the paper, who was familiar with the arguments used by advocates of the system. The November, December, January, and February issues of the magazine have since been published, but no correction of the error has been made; neither has the Federal Farm Loan Board seen fit to publicly repudiate this untruthful statement. Such propaganda will deceive many people into borrowing money, but before the 33 years has elapsed they will discover that they are compelled to pay the full rate of interest on every dollar that they owe for every minute that they owe it, and that the 3.6 per cent rate is a fiction for the use of loan canvassers.

POLITICAL INFLUENCE OF JOINT-STOCK LAND BANKS.

During the first week of January, 1920, 25 or 30 very able gentlemen representing joint-stock land banks made thorough canvass of Congress prior to the hearing of January 10, 12, and 13 before the Senate Committee on Banking and Currency. Congressmen were also deluged with telegrams sent at the instigation of joint-stock land bankers from their home districts, urging a continuation of the tax exemption of joint-stock land bank bonds. These gentlemen with the assistance of letters and telegrams from home, made a very strong impression on Congressmen who were hastily called aside from consideration of the peace treaty and problems involving the payment of the national debt to be told of the terrible catastrophe which would happen to agriculture if the owners of future issues of joint-stock land bank bonds were required to pay taxes upon them. So much sympathy was created for the 30 joint-stock land banks begging for a continuation of the tax-exemption subsidy that many Congressmen forgot all about 29,000 other banks and 110,000,000 people who will be unjustly treated if this subsidy is continued.

For the last two years owners of joint-stock land banks have vigorously encouraged the organization of more such banks. This unusual anxiety to create competitive banks was due to the hope that several hundred joint-stock land banks judiciously distributed over the United States would be politically so powerful that Congress would be unable to repeal the law granting them a tax-exemption subsidy after the voters discovered the way in which the National Treasury was being mulcted and demanded a change in the law.

One of the objects of the witnesses at the hearing of January 10, 12, and 13 was to assure the Senate committee that there is no probability of any more joint-stock land banks being organized and that therefore it would not be

dangerous to continue the tax-exemption subsidy to the 30 that have received charters.

It is well known to witnesses who were present at the hearing that the stock has been subscribed and all preliminary arrangements perfected for the immediate organization of many joint-stock land banks if the case now pending in the Supreme Court is decided in their favor and the Smoot bill is defeated. If Congress and the Supreme Court decide in favor of the joint-stock land bank exemption subsidy, the statement made on the floor of the Senate in July that nearly 100 joint-stock land banks would soon be organized will be found to be correct.

In order that they might have more political influence, the organization of more joint-stock land banks has been constantly advocated by those already in the business.

At a convention in Chicago in September, 1919, Mr. George Ramsey, of the Montana-Idaho Joint Stock Land Bank, eloquently urged the organization of numerous joint-stock land banks and declared that there is room enough in Montana alone for 20 or 30 of them. He probably exaggerated the capacity of Montana for supporting joint-stock land banks, but he did not exaggerate the tendency toward the creation of institutions capable of transforming taxable securities into tax-exempt securities.

On Thursday, January 15, only two days after the joint-stock land bank men had assured the Senate committee that there was no danger of more joint-stock land banks being organized, the Federal Farm Loan Board appeared before the House Appropriation Committee and urged the allowance of an appropriation of $317,640 for expenses for next year instead of $241,820, the appropriation for expenses made for this year. One of the reasons for this increase of $75,820 was the expected increase in the number of joint-stock land banks.

Mr. Lever, of the Federal Farm Loan Board, said:

"If the Supreme Court of the United States takes no adverse action upon the pending suit with reference to the joint-stock land banks and Congress takes no action with reference to joint-stock land banks, as proposed by Representative McFadden and Senator Smoot, the board feels, and I think there can be no doubt of it, that instead of having 30 of these institutions operated in this country as now, by this time next year there will be possibly 100 or 150 of them. They will all be sending their work here, and it is to take care of a possibility of that kind that Capt. Smith thinks it would be wise for Congress to give us this emergency appropriation."

Congressmen observed the tremendous pressure which 30 banks were able to exert through both political parties and through home influences during the first two weeks of January. This is just a suggestion of what will happen when reform legislation on this tax subsidy is suggested after 150 joint-stock land banks get their claws securely fastened on the moneybags of the National Treasury.

COULD CONTINUE WITHOUT TAX EXEMPTION.

It was argued by representatives of joint-stock land banks that they would be compelled to go out of existence if the tax-exemption privilege is repealed.

The joint-stock land banks loan at a flat rate providing a commission of 1 cent on the dollar for every year that any part of the principal is unpaid. They are private institutions managed by men directly interested in the profits, necessarily experts in the farm-loan business. It is, therefore, to be expected that they can give better, more prompt service, and more economical general management than the Federal land banks, officered and managed by appointees often selected because of political availability rather than special capacity.

The Federal land banks are loaning at 5½ per cent money received from the sale of 4½ per cent bonds. In spite of their handicap of politically appointed officials, they claim that they will be able to pay a dividend, so as to reduce their spread or margin to half of 1 per cent. The Federal land banks require special office buildings and a large amount of clerical help, with high-salaried general officers. Joint-stock land banks are often organized as auxiliaries to other private financial institutions, trust companies, or banks. In one case two joint-stock land banks are located in one building as auxiliaries of a local commercial bank. Officers of the commercial bank are officers in both of the joint-stock land banks, the same men serving in all three institutions, and the same building serving for all three institutions. This reduces the expense for

officers' salaries, rents, and general supervision to a minimum, actual extra expense involved being extra clerk hire, examiners, and other subordinates, depending in number upon the amount of business transacted.

The expenses of making loans in pioneer localities under hazardous conditions are much larger than in older States, where conditions are more stable. The margin of cost is necessarily greater where loans are made in an undeveloped country in amounts of $1,000 to $2,500 than the cost in States where the crops are sure and their loans run in size from $10,000 to $40,000. In order to insure the success of joint-stock land banks, financed by taxable bonds, the banks should be permitted to charge a slightly higher rate in localities where loans are small and conditions hazardous. The area in which joint-stock land banks are permitted to make loans ought to be enlarged. If confined to two States, they are likely at any time to be hampered or put out of business by adverse State legislation, such as the creation of State rural-credit systems. If their territory were enlarged to include four or five States instead of two, regional advantages would be preserved and the stability and permanence of the banks would be greatly strengthened. Under the present law joint-stock land banks are likely to be organized in great numbers in desirable territory and the undesirable territory is likely to be neglected. If banks are organized in undesirable territory, there is no guaranty that they will succeed when confined to two States. With these amendments to the law, joint-stock land banks should succeed and be useful financial institutions without the tax exemption of their bonds.

At the present time the market for securities is unsettled, not having returned to normal conditions following the war. The privileges accorded to joint stock land banks are expected to extend into the distant future. It seems reasonable with lower expenses, greater efficiency of management, and no dividends to pay to borrowers, that under normal conditions the joint stock land banks ought to be able to successfully compete with Federal land banks without the Government subsidy of tax exemption.

Just at the present time they might not be able to sell their bonds at a 5 per cent rate, but if they sold the bonds at a 5.7 per cent rate on their Iowa loans they would still be making more money than Iowa private investors, according to their own data furnished to the Supreme Court and the Senate committee. Under ordinary circumstances they ought to have no trouble in selling their bonds at 5.25 to 5.40. Those which are organized in connection with other banks, so as to be run on an economical basis, could temporarily operate with a small amount of business without incurring serious losses, because they are really only departments of other banks. The advantage of Government examination of their securities and Government supervision of their bond issues gives them prestige over private concerns in the bond market.

One of the witnesses before the Senate committee, in trying to prove that joint stock land banks were necessarily run on a very close margin, stated that the report of exorbitant profits made by one joint stock land bank was due to the fact that profits made out of stock sales had been erroneously incorporated with profits made out of loans. This statement by the witness refers to the fact that one joint stock land bank sold $300.000 worth of stock in the early part of 1919 at $125. It would be interesting to incorporate in the proceedings of this hearing some of the statements about profits made by stock salesmen when they were canvassing for the sale of that stock. They would doubtless afford a strong contrast with the statements made by representatives of the joint stock land banks to this committee January 10, 1920.

MOST LOANS ARE MADE IN LOW-RATE TERRITORY.

Witnesses declare that evidence taken by congressional committees before th farm loan act was enacted showed that high rates of interest had been charged. The interest rates in Iowa and the more reliable food-producing States were a shade lower prior to 1916 than they are at the present time. These are the States in which most of the joint stock land bank 6 per cent loans have been made. Evidence of excessive rates up to 16, 18, and 20 per cent furnished to the congressional committee is chiefly valuable now for its uses as a sympathy exciter by those who desire to continue the tax exemption of land bank bonds on loans made in low-rate territory.

Investigation will prove that such high rate loans are nearly always made where the security is very poor and where the loans are very small, so that the risk and the expense of taking care of the loan is more than ordinary. Great sympathy is always expressed for the small borrower who pays high rates of interest. In the early literature of the Federal Farm Loan Board much was said about the poor man who could obtain a farm loan as low as $100 and the assistance to be rendered the small borrower was given as a reason for favoring the law. It only required a few months' experience to show that such small loans could not be made at a very low rate and the tendency of both the Federal land banks and the joint stock land banks has been to avoid small loans and to seek the larger loans.

It has been successfully demonstrated that joint stock land banks seek the best loaning territory and that they are very profitable. Several banks have begun to make loans in high-rate territory in the locations where farming is hazardous and the risks dangerous, but none of these have been in operation long enough to prove that they can succeed. It will be necessary for them to demonstrate to investors that the securities back of their bonds are reliable in order to develop a market for their bonds. It will be more expensive to sell bonds based on small mortgages taken in semiarid districts than those of reliable farming territory as well as more expensive to produce the loans.

FORECLOSURES AND HIGH RATES ON DELINQUENCIES.

For political purposes it has been argued that the troubles of the farm borrower would be over as soon as he closed his loan and secured the money under the farm loan act. It has only required a few months to sweep away this delusion. The farmer who owes a Federal land bank or a joint stock land bank is expected to pay when due, and the making of a big loan running for a long period of years is often just the beginning of his troubles. If delinquent, the borrower is subject to penalties and immediate foreclosure, as shown by the following clause from a mortgage given by John Landauer and wife, of Boone County, Nebr., to the Omaha Federal Land Bank:

"And the said parties of the first part do further covenant and agree that in case of default in payment of the said principal sum of money or of any amortization installment thereof, or of interest thereon, or in the performance of any of the covenants or agreements herein contained, then, or at any time thereafter during the continuance of such default, the said party of the second part, or its successors or assigns, may, without notice, declare the entire debt hereby secured immediately due and payable, and thereupon the said party of the second part, or its successors or assigns, shall be entitled to immediate possession of the said premises and may proceed to foreclose this mortgage according to the statutes in such case made and provided."

The borrower who owes one of these mortgages "that never comes due" soon finds that it may come due all in a lump if he falls behind in his payments. Joint stock land banks are obligated to protect themselves in a similar manner. Loaning money at any rates of interest is a business matter, not charity.

It would not be possible for the joint stock land banks or the Federal land banks to cancel delinquent payments and continue in business. These banks cease to be charitable institutions after the borrower's name is put on the dotted line and the mortgage duly recorded. If they were to permit delinquent payments to go uncollected they would thereby do an injustice to other borrowers, the stockholders, and the bondholders.

Droughts and hard times are not averted because the farm borrower refunds his mortgage loan with a Federal Land Bank or a joint-stock land bank.

It often happens that the managers of these banks are optimistic amateurs or politicians seeking popularity. Either of these causes are dangerous to the stability of a money-lending institution. Conservative appraisement and moderation in size of loans are essential to promote collections and a minimum of losses.

BIG COMMISSIONS ENCOURAGE BIG LOANS.

Lured by the promotion talk of loan solicitors who promise that the mortgage will never come due, too many borrowers go beyond the danger limit in giving mortgages larger than their resources and prospects warrant. Attracted by the rich commission of 1 per cent on the dollar for every year that the principal is unpaid, some joint stock land bank officials are too ready to anticipate future increases in value of the real estate in making their loan appraisements. They are too likely to reason that it will be 33 years before the loan comes due, and that it will be safe to trust to luck that the land mortgaged will increase rapidly in value after the loan is placed.

High appraisements are the rule in all States. A reliable, conservative loan agent writes regarding conditions in Minnesota as follows:

"Instead of increasing crop production, the entire system—Federal land banks and joint-stock land banks—have encouraged and aided inflated land values. I had an application presented to me this morning for a $24,000 loan on 240 acres in Murray County, this State, which had been accepted by the Joint-Stock Land Bank of Iowa, but owing to the nonmarketaibility of their bonds they canceled the application. I would not loan to exceed $62.50 an acre, or $15,000."

Friends of the joint-stock land banks and the Federal land banks make a virtue of their heavy appraisements and boast that one of the benefits of the Federal farm loan act is that it has compelled private investors to increase the size of their loans. Joint-stock land banks were pioneers in raising the Iowa loan limit to $100 per acre when private companies were loaning $75. It is always easy to sell goods below cost, to give away property, or to make loans to people who can not pay. While the money is going out business is booming and everyone boasts of its success. The true test comes when collections are made. If injudicious loans are made, the pinch may come at any time within 5, 10, or 15 years.

At the end of 15 years 77½ per cent of the principal of a Federal land-bank loan is still unpaid and only 22½ per cent has been liquidated by the amortization payments paid according to contract. The amortization is so slow during the first 15 years that it is of little protection to the investor and might not equal depreciation.

It can not, therefore, be assumed that a Federal land-bank mortgage is entirely clear of the rocks of possible foreclosure until after the amortization payments have been made for more than 15 years.

Banks established under the Federal farm loan act have not been doing business long enough to prove the character of the loans thoroughly by collections. Joint-stock land banks have no loans more than a year old in hazardous farming localities, and data as to their collections is not made public.

EXAMINATION OF FARM LOAN ASSOCIATIONS NEEDED.

National farm loan associations, composed of borrowers from the Federal land banks, are to a certain extent responsible to the Federal land banks for payments due from their members. Ordinarily it is expected that a local association will make up the payment for a delinquent borrower if he can not himself pay it, because it is the practice, at least with some of the Federal land banks, to pay no dividends to associations if any of their members are delinquent. The records of the Federal land banks and the records at Washington would not necessarily show any delinquency if the general funds of the local association were remitted for the payment of delinquent members.

There are at present about 4,000 national farm loan associations. Very little is known of their actual condition. The law provides that these associations shall be examined. During the first year no examination was made. During the third year three examiners were employed. Farm Loan Commissioner Norris, on January 15, when asking for an increase of appropriation to enable the board to hire more examiners, said of experiences in 1919:

"You can imagine that the three men did not get very far with the 4,000 associations, but they have gone far enough to show very conclusively the necessity for examining those associations. Each of these farm loan associations has one salaried officer, a secretary-treasurer. Sometimes he is a farmer, sometimes he is a county banker, a cashier, or bookkeeper, or teller in a bank. Sometimes he is a young lawyer, and sometimes they are worthy people and sometimes not so worthy. We have had about seven cases so far of defalcations—three that were really defalcations. In one the amount was small. I do not remember what it was. There was one in the Wichita district that amounted to $3,300 and one in the Omaha district of $6,800."

Later, Commissioner Norris added:

"Then there were three or four others that probably it would hardly be fair to call defalcations, where people did not keep the accounts or got their funds or their accounts mixed. But if these associations go without examination we feel that sooner or later there may be a national scandal almost."

This may be found on page 2309 of the report of the hearings of the House Appropriation Committee. Again, on page 2311, Mr. Norris said:

"I suggested in a diplomatic way last year, when we asked for the appropriation, that if Congress did not choose to give it to us, and a series of scandals and defalcations arose in these associations, I wanted to say frankly that it would be the fault of Congress and not ours."

On page 2313 of the report of the committee Mr. Lever, of the Federal Farm Loan Board, is quoted at length as saying that these defalcations had all been cleaned up but one, and that that one was in process of cleaning up, but he emphasized the need of examiners by saying that if an appropriation is not made for examiners he fears some day the country will be awakened by a scandal that will reach from the Atlantic to the Pacific. The following is from his testimony:

"So far we have been provided with only three national farm loan association examiners with the result that only a very small percentage of those associations have been, or can be, examined. Fortunately, so far we have had only seven apparent defalcations. The associations have not lost anything. I do not think there was any criminal intent in all of them. I think it was really more a matter of bad bookkeeping. They have made good the losses to the associations."

Mr. Sisson. All except the two?

Mr. Lever. "All of them have. We have one outstanding, but that is in process of cleaning up, but those two defalcations have impressed upon me—I happen to be in charge of this particular branch of the service—the absolute necessity of frequent examinations of the associations, of these secretary-treasurers, who are the executive and active officers of these associations, or else I am afraid that some of these days we will be awakened by a scandal that will reach from the Atlantic to the Pacific."

Occasionally a little information about the inside workings of the Federal land banks leaks out by accident, giving a slight insight into actual conditions.

In many localities local bankers, personally friendly to farmers, have loaned them money to carry them over hard times. In some cases they have been so liberal as to make it necessary to take second mortgages to protect themselves against later creditors. The local mortgage man or banker is usually the personal friend of the borrower. It is to him that the borrower must apply as a last resort when the nonresident land bank can carry him no longer. The local banker is the one who furnishes the money if the land bank increases the rate of interest from 5½ per cent to 8 per cent. One of the principal arguments used by representatives of both the Federal land banks and the joint stock land banks in favoring the tax exemption of bonds is that the farmer without money can buy and give a first mortgage for half of the price and then give a second mortgage to a local man for all or part of the balance. The literature of these banks is loaded with fairy stories about this blue-sky method of buying farms without capital.

In a small percentage of cases, where the borrowers are men of exceptional ability, located in a sure-crop country, with continued high prices for farm products, with no bad luck from fire, hail storms, drought, or sickness, such heavy borrowers might pay out. In actual business practice the persons holding the second mortgages run all the risk, and in case of disaster sustain the loss. If the debtor eventually wins out he will owe his success to the assistance of the local money lender and not to the nonresident bank that held the first mortgage.

PRACTICAL EXPERIENCE WITH LOANS THAT NEVER CAME DUE.

A letter from the Federal Land Bank of Spokane to a local bank shows exactly how the second mortgage proposition works out in real life. It also shows that delinquent farmers are up against an 8 per cent proposition the minute that their amortization payments are past due. It also shows that they are liable to immediate foreclosure, as provided by the clause in the mortgage hereinbefore quoted, unless local friends step in to aid them. It also shows that politically appointed Federal land bank officials and officers are not so competent to make safe loans as local people who are familiar with the land, the climate, and personal characters of the borrowers.

The local banker is loyal to the home farmer and stays with him and keeps on sticking to him until he wins out, if that is possible. There are a plenty of good loans in Montana, but the Federal land banks pick up more of the lame ducks and then boast of their "liberal policy" for political effect.

By the letter which follows it will be noted that five borrowers are delinquent in one small association. The revelations which may be made a year from now

by 12 examiners, after the 4,000 farm-loan associations have all been examined, may show many other farm-loan associations as bad off:

THE FEDERAL LAND BANK OF SPOKANE,
Spokane, Wash., January 13, 1920.

Loans of Alfred Anderson, Karen Marie Nilson, D. L. Johnson, H. J. Eyer, and C. E. Evenson.

HAVRE NATIONAL BANK,
Havre, Mont.

GENTLEMEN: This bank holds first mortgages executed by the borrowers above listed on their farms in Hill County, Mont., on which we understand you hold subsequent mortgage liens. The amortization installments to us are in default, as follows:

On the Anderson loan:	
Due Sept. 27, 1918 (balance)	$25.00
Due Mar. 27, 1919	78.00
Due Sept. 27, 1919	78.00
On the Nilson loan:	
Due Apr. 17, 1919	45.00
Due Oct. 17, 1919	45.00
On the Johnson loan:	
Due Apr. 17, 1919	79.50
Due Oct. 17, 1919	79.50
On the Eyer loan:	
Due Apr. 25, 1919	39.00
Due Oct. 25, 1919	39.00
On the Evenson loan:	
Due Nov. 5, 1918	90.00
Due May 5, 1919	90.00
Due Nov. 5, 1919	90.00

Each installment, under the law, bears interest at 8 per cent from due date until paid.

We have thought that you may wish to protect your interest in these cases; hence address you, as we would be glad to hear from you and hope to receive remittance to cover the delinquent installments with interest as aforesaid by return mail.

Very truly, yours,

GEO. M. DREHER, *Treasurer.*

This letter is not offered in criticism of the law, but to emphasize the point that tax exemption of bonds does not guarantee against defaults. When money is loaned those who administer the law must carefully consider the ability of the borrower to pay.

A Montana banker who has lived for many years on the frontier has this comment to make upon conditions:

"We feel that the Washington champions of the farm-loan act have much to learn regarding the financing of the farmer in a pioneer country. It is comparatively easy for a farmer to get a loan after he has title to his homestead, but who has brought him that far? The banker and the merchant. There is a period of from three to five years that a homesteader has to receive credit from local institutions in order that he can build, fence, break sod, and otherwise improve the land that he takes up. There are very few homesteaders that have money enough to carry them over this period if adverse conditions set in such as we have experienced here. Also during this period production must be kept up, and it is up to the local banker to furnish the means. The point that I wish to bring out is that if local banks can take care of a farmer during the first three to five years of his pioneering they are surely able to take care of him from then on."

TAX-FREE BONDS DO NOT AID IN A DRY TIME.

No one will contend that the New York, Boston, or Philadelphia capitalists, who evade a 70 per cent income tax by purchasing tax-exempt joint-stock land-bank bonds, will make any donations to save the pioneer farmer from foreclosure. The National Government could give better service by collecting the income tax from the capitalists and making direct donations to the farmers.

EXTRAVAGANT CLAIMS OF JOINT-STOCK LAND-BANK WITNESSES.

The Senators of the committee have such a thorough understanding of conditions and by their cross-examination so completely exposed the fallacies of the witnesses for the joint-stock land banks that it seems unnecessary to refer to many extravagant and unreasonable claims made by these witnesses. Their anxiety to save the tax-exemption subsidy for their banks led them to make many statements for which they will be criticized when the evidence is printed and circulated in the States affected.

They all contend that this is not class legislation. They also laid down this fundamental principle:

"The right to issue tax-exempt farm-mortgage bonds is predicated upon a service to the general public."

If the word "farm" is eliminated from that sentence and we substitute therefor "coal mine" or "shoe factory" or "clothing factory" or "railroad" or "flour mill" or "city home" or "steel mill" or "cement mill" or "street car" or "electric light" or "waterworks" or any other of dozens of industries or utilities that serve the public, the sentence would be just as correct. This discloses the irrefutable truth that class legislation can not be confined to any single class. If special privileges are to be granted to one class, they must be granted to all. It also discloses the fact that bondholders who make $6 for every dollar's worth of benefit conferred on farmers will make the same proportion of the profit if the same tax legislation is enacted in favor of other classes.

This proves that the drift of this kind of legislation is rapidly pushing the country toward a single-tax basis, in which the land will be compelled to carry most of the tax burden. Prof. Louis Wallis, of the Joseph Fels Single Tax Commission, in a talk in Chicago before the American Association of Creamery Butter Manufacturers, on February 17, said:

"When the business man shifts the tax to customers by way of higher prices he gets no relief, because he also is a purchaser in various markets, and thus runs afoul of the increase which others are trying to hand along.

"Business in general is not getting a square deal; production is hindered by heavy taxation, by watered land values, and by watered railroad values. The burden of taxation should be shifted gradually and yet as rapidly as possible from production to land values."

The true friends of the farmer can not afford to favor tax exemption of joint-stock land-bank bonds, because the taxes evaded by the millionaires must be borne by the masses, to be paid by consumption expenses, by taxes on sales, and by higher taxes on lands. The small benefit which the borrowing farmer obtains from tax exemption will be overbalanced by higher freight rates on the grain and live stock which he sells and by higher prices on machinery and other commodities which he buys.

Furthermore, this benefit only goes to a small proportion of the farmers, who borrow under this system, while all other farmers suffer losses without compensating benefits.

LOSSES TO THE NATIONAL TREASURY.

On the second day of the hearing, Monday, January 12, a witness for a joint stock land bank gave the amount of farm mortgages in the United States at approximately $4,000,000, now held as follows:

Insurance companies	$1,100,000,000
Savings banks, State banks, trust companies and commercial banks	1,000,000,000
Eleemosynary institutions	400,000,000
Local loans	1,250,000,000
All other	250,000,000
Total	4,000,000,000

Of this vast amount he declared that only the last item of $250,000,000 of loans could be rewritten into this act, the holder of which may be now paying an income tax.

It is unfortunate for the witness that the report of the Federal Farm Loan Bureau for January 31, 1920, shows that $318,445,231 of farm loans had been closed by the Federal land banks, financed by tax-exempt bonds. It is still further to the discredit of this witness' evidence that the report of the sec-

retary of the American Association of Joint Stock Land Banks, printed in the proceedings of the first day of the hearing, asserts that $53,000,000 of loans had already then been made by the joint stock land banks, and he estimated that $54,000,000 of loans had been applied for and will be closed if the tax-exemption subsidy is continued. This makes a total of $371,445,231 already closed by the two kinds of banks. The report of the Federal farm loan bureau for January 31 shows that the total number of loans applied for to that date through the Federal land banks is $720,166,535. This, added to the $107,000,000 closed and applied for through the joint stock land banks, makes $827,166,535 worth of loans already in sight. The Federal land banks expect to make approximately $150,000,000 worth of new loans during the current year and to continue at approximately that rate, if the tax exemption of bonds is sustained by the Supreme Court. It is not necessary to go into further detail to show the gross inaccuracy of the statements of the witness.

He further alleges that a large proportion of these mortgages are held by eleemosynary institutions and others who do not pay a direct tax upon them, and therefore they will not be affected. If an eleemosynary institution does not pay any tax now on its assets it would make no difference to the institution if its assets were converted into other property. If a joint stock land bank persuades a farmer to make a joint stock land bank 33-year 6 per cent amortization loan and pay off a $10,000 5.9 per cent loan owed to an insurance company or eleemosynary institution, the result will not affect the taxatioon of the insurance compaany or the eleemosynary institution, but it will create a $10,000 tax-exempt joint-stock land bank bond which the joint-stock land bank can sell to some millionaire and enable him to thereby evade the payment of over $350 of income tax annually. The action of the joint-stock land bank simply creates additional tax-exempt property, which is used to evade taxation. If this loan were made in Iowa, the Iowa farmer would, because of the supposed benefit of a 33-year loan, pay a higher rate of interest than he now pays and no one would be benefited but the joint stock land bank and the wealthy investor in joint stock land bank bonds.

MUNICIPAL BONDS USUALLY TAXABLE.

The witness further says of the investor:

"If he did not buy our tax-free bond he would buy a municipal bond that is wholly tax free."

This statement is contrary to fact and conflicts with evidence of other witnesses for the joint-stock land banks. Municipal bonds are exempt from Federal income tax, but in nearly all States they are subject to property tax. The average property tax is much higher than the average income tax, because property taxes are assessed according to the value of the property and they are not graduated by the income of the owner. The few States which exempt municipal bonds issued by their own municipalities, in nearly all cases levy regular property taxes on the securities issued by the other 47 States.

The witness ought not to be criticized for his erroneous statement about the tax exemption of municipal bonds, because some members of the Federal Farm Loan Board are responsible for similar statements. It is not necessary here to quote the taxation laws of all of the 48 States, but typical States may be cited to show that several gentlemen declaring municipal bonds to be wholly tax free had not informed themselves as to the State laws of their own States.

The auditor of the State of Ohio writes:

"An amendment to the Ohio constitution was adopted in 1912, making all public bonds, except United States bonds, taxable in Ohio. The only exemptions are bonds of Ohio taxing districts issued prior to the adoption of the amendment. All public bonds issued by other States or their political subdivisions are subject to State and local taxes at the same rate as all other taxable property. We have the uniform plan in Ohio. All pay the same rate."

In the State of Illinois, the chairman of the tax commission, under date of January 30, 1920, states that State, county, city, and highway bonds are taxable, same as other credits taxable for all purposes. Regarding the tax on bonds and municipal securities from other States, he says:

"The Illinois State rate this year is 40 cents on the hundred dollars assessed, but they are also subject to county, city, and school tax, same as other credits."

The auditor of the State of Kansas, under date of February 2, 1920, writes that the securities of other States or municipalities of other States are not

exempt from taxation. He says they are subject to the same tax as any other property of the State.

The State tax commissioner of West Virginia, under date of February 6, writes that the bonds of other States and municipalities of other States are taxed, unless exempt by the former States when comity exists. He further states that city and highway bonds issued in West Virginia are not exempt from taxation unless specially exempted by statute, and that such exemption statutes are understood to be invalid under the State constitution.

In the State of Wisconsin, instead of a tax on property, according to values, a State income tax is collected. Under date of January 31, 1920, referring to bonds of other States and municipal bonds, the secretary of the Wisconsin tax commission writes as follows:

"The interest from such bonds as you mention is subject to tax under the Wisconsin income tax law. The rate of taxation is progressive or graduated from 1 per cent to 6 per cent, depending on the amount of net income received by the taxpayer."

DISTINCTIONS AS TO TAX EXEMPTIONS.

There is a very decided distinction in character between farm loan bonds and the securities of building and loan associations or the deposits of mutual savings banks.

The farm-loan bond is an article of commerce, bought and sold in the market, purchasable by wealthy persons for the purpose of tax evasion.

The stock of building and loan associations and the deposits in mutual savings banks are nearly always owned by individuals of small means struggling to pay for homes or to acquire modest competencies. Very few of them are subject to any income tax in any event. It is impracticable to list these on the stock markets for numerous legal and other reasons. Wealthy men can not buy them at public or private sale, and thus successfully evade payment of large amounts of taxes. They are not marketable in large quantities and are not listed on any stock exchange.

Mortgages owned by life insurance companies can not be sold to rich persons to enable them to evade taxation. Insurance company mortgages are carried as investments for the benefit of thousands of policyholders. Insurance companies are similar in nature to savings banks and building and loan associations; they encourage and promote thrift and frugality. The great majority of policyholders are people of moderate or small means and in many cases their life insurance policies represent their entire property holdings. These can not be purchased in the markets to be used as farm-loan bonds are used by third parties for purposes of tax evasion.

None of these securities are quoted on stock exchanges as merchantable commodities, while the farm-loan bond is bartered or sold in any market and retains its tax-exempt characteristics regardless of ownership.

NATIONAL MORTGAGE INDEBTEDNESS.

The estimate of form mortgage indebtedness of $4,000,000,000 is based upon statistics obtained several years ago. Well-informed statisticians now estimate that the farm-mortgage debt is a little in excess of $4,500,000,000. The best authorities in the country, writing for agricultural papers, estimate that farm debts unsecured by mortgage aggregate from $1,500,000,000 to $2,500,000,000, making the total farm indebtedness six or seven billion dollars.

Our Basic Industry, a pamphlet recently issued by Guaranty Trust Co. of New York, estimates the total farm indebtedness in the United States at approximately $6,000,000,000. The estimate is based upon a study made by the Curtis Publishing Co. through its division of commercial research.

The Third Annual Report of the Federal Farm Loan Board states that 68 per cent of the mortgages issued by the Federal land banks were for the purpose of refunding mortgage and other debts. The balance of the new mortgage debt, or 32 per cent, indicates an increase over and above the amount required to refund mortgage debts and other debts. This additional 32 per cent is reported as used for other purposes. If this encouragement of an increased indebtedness continues, the six billion of secured and unsecured farm debts now owed, when refunded, will represent 68 per cent of the new amortization loans, and the total farm-mortgage indebtedness of the United States will be increased to more than $9,000,000,000. These figures are taken from official

reports, and if the third annual report of the Federal Farm Loan Board is correct, the conclusions can not be disputed.

It is not probable that more than half of this indebtedness would ever be refunded by Federal land banks and joint stock land banks, but that amount, if financed by tax-exempt bonds, would create an enormous loss to the National Treasury.

Economists tell us that taxes which are evaded through the granting of special privileges are thus shifted upon other taxpayers. According to the Third Annual Report of the Federal Farm Loan Board, loans to the amount of $282,007,781 had been made by the Federal land banks, and loans to the amount of $54,126,357 had been made November 30, 1919, by the joint stock land banks. The income from $282,007,781 of the Federal land bank bonds at 4½ per cent would be $12,690,350. The income received by investors from $54,126,569 of the 5 per cent joint stock land bank bonds would be $2,706,317 per year. This makes a total income per year from these tax-exempt bonds of $15,396,667. If these bonds were held by some of the 141 very wealthy persons receiving a million dollars per year or more as incomes, the annual loss to the National Treasury would be $11,239,566.91. If they were owned by some of the over 6,000 investors receiving incomes of $100,000 per year or more, the annual loss to the National Treasury would be $9,238,000.20.

The wild rush of very rich investors to evade taxation creates a great demand for tax-exempt bonds and stimulates their production. It also provides a market that is not overcritical of reliability. This encourages high appraisements and reckless loaning that will produce many foreclosures.

It is quite possible that $3,000,000,000 of such tax-exempt farm-loan bonds might be created before the national debt is paid. It would be very reasonable to place the estimate at $2,000,000,000. With $2,000,000,000 of tax-exempt bonds owned by parties thus evading 73 per cent of income tax, the annual loss to the National Treasury would be $73,000,000.

The man worth $500,000 invested in 6 per cent taxable securities would receive an income of $30,000 and be subject to an income tax of $2,800. If his fortune was invested in 5 per cent tax free joint stock land bank bonds his income would be $25,000. He would be better off by $2,200 per year if he owned 6 per cent taxable bonds.

It is apparent that the principal customers for 5 per cent taxable bonds must come from the ranks of those worth more than half a million dollars.

THAT DOLEFUL PICTURE OF IOWA.

The evidence offered by the witnesses representing the Iowa joint-stock land banks will create something of a sensation when it is printed and distributed in that State.

For more than a generation Iowa has been understood to be one of the most prosperous agricultural States in the world. The fertility of the soil and the rapid development of the agricultural industry has been considered phenomenal. Insurance companies and other investors have been strong competitors for Iowa loans, and the rate, including commission, is reported by Government authorities to have been only 5.9 per cent on first-class farm loans.

Iowa boasts of the finest agricultural college in the world. The latest improvements in farming methods taught by the Iowa Agricultural College and the National Department of Agriculture have been adopted by Iowa farmers until the State is looked upon as a model of progressive agricultural prosperity.

In April and May, 1919, about eight months prior to the taking of evidence by the Senate Banking and Currency Committee at this hearing of January 10, two joint-stock land banks were organized in Des Moines. They immediately began making farm loans at 6 per cent interest and selling tax-free bonds on which they pay 5 per cent interest. The joint-stock land bank of Chicago began loaning in Iowa about a year and a half earlier on the same terms. The Sioux City Bank also made some loans.

It is impossible that these joint-stock land banks could have had much of an effect on the prosperity of the State. None of the evidence offered justifies the contention that the bonds ought to be tax exempt so that the banks may make 1 per cent per year commission and the bond holders receive immunity from income and property taxes, in order that these 33-year loans may be made to farmers at a rate higher than they are now paying on loans borrowed for shorter periods.

The doleful condition alleged to exist in Iowa prior to the organization of these land banks in the spring of 1919 can best be shown by quotations from the testimony.

One of the witnesses, in urging that a tax-exemption subsidy was advisable on farm loans of $25,000 each and upward, said:

"If you use a system of underfinancing so that a man can not keep the necessary cattle and hogs, so that he may rotate his crops, you have laid the foundation for undermining your land and destroying the future prosperity of the country by close-fisted financing, and that is what close-fisted financing has done for our farms, and I can show you farms in Iowa that can not produce within 25 bushels of corn an acre what they could produce ten years ago."

The absurdity of claiming that tax-exempt bonds of banks organized in the last three years are entitled to credit for agricultural prosperity and maintenance of the fertility of the soil is best answered by Secretary Houston, of the Department of Agriculture. He says that the average acre yield of field crops for the 10-year period ending 1918 averaged much higher than for 10 years ending in 1890. In the March issue of the Farm Journal, published in Philadelphia, an article appears by Secretary Houston showing great increases in crop yields before the Government subsidized land banks were organized. The article follows:

"During the seventies and eighties, when there was a vast expansion in farm area in the West and crops were grown on a more extensive scale, the tendency of yields was downward. Since the early nineties, however, it has been upward.

"For the 10 years ending with 1890 the average yield per acre of wheat in the United States was 11.8 bushels; for the 10 years ending in 1918 the average yield was 14.8 bushels, or an increase of 25 per cent.

"In the first period (the 10 years ending 1890) the average yield of corn was 23.4 bushels; in the second, 25.8 bushels, or an increase of 10 per cent; oats, 25.9 bushels in the first period; in the second, 32.2 bushels, or an increase of 24 per cent; potatoes, 72.9 bushels for the first period, and 96.8 bushels for the second, an increase of nearly 33⅓ per cent. Cotton, notwithstanding the ravages of the boll weevil, increased from an average of 169 pounds in the first period to 175 pounds in the second, an increase of 3.5 per cent.

"All other field crops have likewise improved in yield, the average for the 10 years ending in 1918, being 16 per cent greater than that for the period ending in 1890.

"This tendency is general. It is not due to the shifting of production. For example, in New York the increases for the two periods were as follows: Corn, 24 per cent; wheat, 44 per cent; oats, 21 per cent; barley, 24 per cent; buckwheat, 43 per cent; potatoes, 30 per cent; hay, 10 per cent; weighted average of all, 18 per cent. The facts for New England are even more striking and significant."

It would be interesting to have an agricultural census of the various counties in Iowa and thus ascertain in how many the yield of corn has decreased 25 bushels per acre in the last 10 years because the mortgages on the farms draw 5.9 per cent interest and were payable to private investors instead of drawing 6 per cent interest, payable to joint-stock land banks.

At another time the witness alleged that permanency of land ownership is threatened under the present loaning system, when he said:

"There are a few things—and I wanted to take them up in their order, as I had a schedule—but there are a few things we must look to. One is permanency of land ownership and occupancy—Must we not?—under the five-year loan system, which has been in vogue up to the present time; very few men and their families have stayed upon a farm more than one generation, very few. Why? Most all of those of the West have been in debt; men have died, the estates being in debt, the widow has been compelled to sell her property. You have had that experience as a lawyer, and other lawyers have had it. Estates were cut in two because of a forced sale to settle the estate.

"Under this system of loans that estate can not be jeopardized, the widow can stay on the farm if she has sons old enough to operate the land and the boy stays on the farm and runs it. Under the old system he was forced off the farm and into the city to become, perhaps, a drayman or something else."

The evidence of the witness would apply more to conditions in Iowa 45 or 50 years ago than at the present time. There is nothing in the law nor in the practice of investors to warrant any claim that joint-stock land banks will extend greater privileges to widows and orphans than will be granted by private investors.

Safety of investment has very frequently been sacrificed by these subsidized banks in the effort to win the favor of borrowers. Valuations have averaged too high, and the element of moral hazard has, in many cases, not been carefully scrutinized.

Loans recklessly made in localities where climatic conditions were not well considered by examiners will also be a productive cause of foreclosures. The letter from the Spokane Federal Land Bank about the five delinquent loans in one local association is simply an indication of what will be revealed in 11 States after the 4,000 farm loan associations have been examined.

It is always easy to loan money if the borrower is permitted to be the judge of the valuation of his own property and of his ability to pay. It is quite another thing to loan money judiciously so the borrower can make all payments promptly when due. A leading life insurance company in 52 years of business loaned $222,811,111.06 to 104,331 farmers. These loans were judiciously placed and the interests of borrowers were protected during the stress of hard times, so that only about 1 per cent of the mortgages went to foreclosure.

Careful estimates based on data furnished by correspondents in the principal mortgage-producing States shows that the subsidized banks are likely to make more than four times as many foreclosures before the expiration of 10 years unless large numbers of delinquent payments are commuted.

HOW IOWA WAS SAVED FROM DESTRUCTION.

Another Iowa witness, representing three joint-stock land banks, was equally confident that tax-exempt bonds are necessary to save that supposedly prosperous State from destruction. The following paragraph from his statements will be read with interest by men familiar with the Iowa loaning situation during recent years:

"Now, gentlemen, the fact is that in Iowa during the last year and more, if it had not been for the Federal and joint-stock land bank loans, farmers in Iowa would have had practically no source of supply, owing to conditions. The life insurance companies were practically out of the loan market for the last year, owing to 'flu' losses, to buy Government bonds and loan them to the policyholders, and practically all of the farmers—a large percentage of the farmers—in Iowa got their loans entirely through the joint-stock land banks in Iowa. The insurance companies were unable to loan. The Connecticut Mutual was making a few small loans through Iowa and the Union Central was making a few, but there were practically none. The volume had decreased, I should judge, at least 80 per cent. And conditions such as those which arise from time to time make institutions like a joint-stock land bank a valuable asset to a community."

In explanation of the extravagant claims of the witness it may be stated that in 1918 some of the insurance companies were compelled for a short time to suspend making loans. They invested the funds ordinarily intended for farm-loan purposes in Liberty bonds to help the Nation win the war. Part of these funds paid into the Treasury for Liberty bonds were invested in Federal land-bank bonds under special act of Congress. The Federal land banks were thereby enabled to compete with Iowa insurance companies by using part of the money originally paid by the Iowa companies for Liberty bonds. This shortage of money for farm loans only lasted a few months in 1918 and it did not affect the market in 1919.

The joint-stock land bank witnesses deny that the issuing of long-time loans, financed by tax-exempt bonds, has a tendency to promote wild real estate speculation. The following paragraph from the evidence of the attorney representing three Iowa joint-stock land banks in Iowa indicates that they have been useful in land speculation:

"Before I left home one of the real estate dealers, who had sold $5,000,000 worth of Iowa lands last year, was to see me three or four times in one week to know if I thought his customers were going to get the joint-stock land bank loans, and all I could tell him was simply that they would have to wait and see."

SPECULATORS.

The star witness in favor of large loans on tax-exempt bonds was a farmer from Virginia. He said, introducing himself—

"I am a farmer in a near-by county here in Virginia, with a farm of 650 acres of ordinary Virginia land."

In the course of his testimony he described the markets and the condition of his farm, and said that he desired to place a loan of $16,000. He said it was practically impossible to get a farm loan in Virginia for three or five years without paying 5 per cent commission and numerous other expenses, which would run his interest rate up to 7½ per cent. He told of trying to borrow from Washington loan agents, unfamiliar with Virginia titles. If he had applied to a first-class farm loan company, like the Old Dominion Trust Co., of Richmond, he could have got a loan at reasonable rates promptly.

Under the skillful cross-examination of Senator Gronna and the chairman it was shown that this farmer who wanted to borrow $16,000 from a tax-exempt bank had purchased his farm of 650 acres in 1917 for $35,000. He stated that the land had gone up in price about 50 per cent. The witness also admitted that he is a lawyer, living in Washington and practicing law in that city. He also has a law office in Fairfax, Va. His family lives in Washington during the social season in winter and lives on the farm in the summer. He thought that it would increase production more and be better for the agricultural interests of the country if he operated his farm with hired help, rather than if his farm were cut up and occupied by four farm owners.

Another joint-stock land bank witness came to his rescue when the Senators were crowding him with the proposition of subdividing his farm and permitting four families to live on it. This other witness, who thinks that large tax-exempt loans ought to be made, gave his reason for his belief that the 650-acre farm should not be cut up into four farms, when he said:

"I can not agree with you for this reason: Relatively, per acre, it takes on an efficient, well-managed farm less labor, because it is usually a machine proposition."

Clearly the evidence offered in favor of large loans and tax exemption of joint-stock land bank bonds requires no supplementing from outside sources to prove that the rural population will be reduced and the number of farm homes decreased by a continuation of the tax exemption of joint-stock land bank bonds.

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